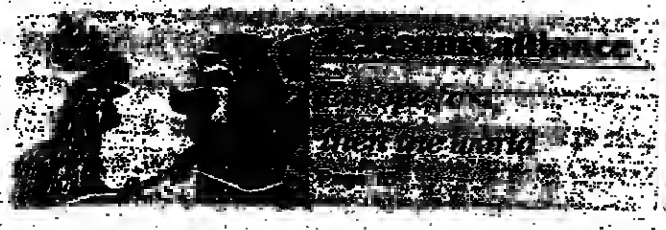

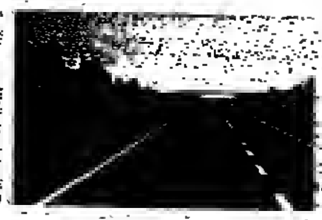

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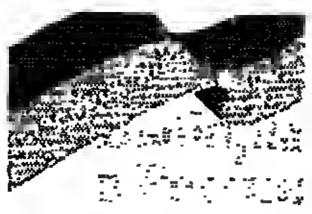

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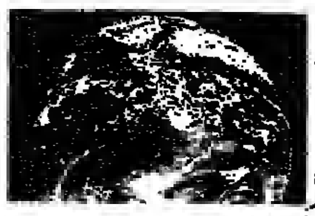

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FINANCIAL TIMES

Europe's Business Newspaper

THURSDAY DECEMBER 9 1993

European bourses boosted by trade talks optimism

Hopes for a successful conclusion to world trade talks boosted European bourses, with the German and UK stock markets closing at new highs. In Frankfurt the DAX index ended up 32.87 at 2,148.13, while a successful UK government bond auction helped push the FT-SE 100 index up 40.1 to 3,277.4. In Paris, the CAC-40 share index finished up 29.19 at 2,205.31.

The dollar made solid gains against the yen in late European trade, moving to Y108.6 from Y107.65, while the French franc rose against the D-Mark, returning to its previous narrow trading bands within the European exchange rate mechanism. London stocks, Page 37; Currencies, Page 34; World stocks, Page 38; Commodities, Page 26

Israeli pull-out may be delayed: The US said it would not object to a slight delay in Monday's deadline for the beginning of an Israeli troop withdrawal from the occupied Gaza Strip and West Bank area of Jericho if the Palestine Liberation Organisation agreed. Page 16

Matsushita Electric, Japanese-based consumer electronics group, is to move 6,000 employees worldwide from administrative jobs to those directly related to production, sales and new business development as part of a big restructuring. Page 17

Patten's Hong Kong policy attacked

Sir Percy Cradock (left), Britain's former chief negotiator on Hong Kong, attacked governor Chris Patten's decision to proceed with electoral reform in the colony without agreement from Beijing. He said Mr Patten's approach "will do much more harm to Hong Kong than the alternative policy of co-operation with China on the best terms we can get." Page 4

Anglo-American consortium buys mine: Eastern Germany's highly regulated utilities industry is set to be prised open after an Anglo-American consortium completed the purchase of one of the region's largest brown-coal mines. Page 17

Xerox, US document processing company, is to cut its worldwide workforce by more than 10 per cent, or 10,000 jobs, during the next two to three years. Page 17

Heath seeks to free Britons: Former prime minister Sir Edward Heath arrived in Baghdad hoping to bring home three Britons jailed for illegally entering the country. Page 4

Murderers sentenced: A German skinhead was jailed for life and another, a juvenile, for 10 years by a court in Schleswig for murdering three Turks and burning down their home.

Train killings were racial, say police: A black gunman arrested for killing four people and wounding 17 on a commuter train near New York acted out of racial hostility, police said.

Upbeat mood over Ulster: The British and Irish governments voiced confidence that they would agree before Christmas a joint declaration designed to persuade the IRA to give up its campaign of violence in Northern Ireland. Page 8

Solicitors gain wider court access: British Barristers' 200-year monopoly on advocacy in the higher courts was broken when solicitors in private practice won their fight for wider rights of audience. Page 8

East Midlands raises dividend: Privatised UK utility East Midlands Electricity unveiled a 19 per cent dividend increase on the back of pre-tax profits up 13 per cent at £64m ($95m). Page 18; Lex, Page 16

NFC, UK-based transport and logistics group, launched a £268m rights issue – the first since the group was privatised by an employee buy-out in 1982. Page 18; Lex, Page 16

Saunders' complaint to be examined: The European Commission of Human Rights agreed to take up a complaint by former Guinness chairman Ernest Saunders that he was given an unfair trial in Britain in 1990 on company fraud charges.

Vietnam worried by corruption: The Vietnamese government has admitted that a year-long campaign against corruption among state employees was having little impact. Page 4

■ STOCK MARKET INDICES		
FT-SE 100:	3277.4	(+40.1)
Yield	3.6	
FT-SE Eurotrack 100	1419.22	(+16.72)
FT-A All-Share	1597.38	(+1.0%)
Nikkei	18,597.95	(-335.56)
New York lunchtime:		
Dow Jones Ind Ave	3728.25	(+1.40)
S&P Composite	465.84	(+1.12)
■ US LUNCHTIME RATES		
Federal Funds:	2¾%	
3-mo Treas Bills: Yld	3.137%	
Long Bond	101¼	
Yield	6.185%	
■ LONDON MONEY		
3-mo Interbank	5¼%	(5¼%)
Liffe long gilt future:	Dec 118½	(Dec 118¼)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Jan)	$13.63	(13.88)
■ Gold		
New York Comex (Dec)	$383.6	(377.4)
London	$383.25	(376.3)

■ STERLING		
New York lunchtime:		
$	1.497	
London:		
$	1.495	(1.492)
DM	2.55	(2.545)
FFr	8.73	(8.755)
SFr	2.1925	(2.1875)
Y	162.25	(160.5)
£ Index	81.7	(81.6)
■ DOLLAR		
New York lunchtime:		
DM	1.7038	
FFr	5.83775	
SFr	1.46625	
Y	108.65	
London:		
DM	1.705	(1.7055)
FFr	5.84	(5.8675)
SFr	1.466	(1.4655)
Y	108.6	(107.6)
$ Index	66.6	(66.5)
Tokyo close Y 107.82		

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft135	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lv25.00	Iceland	IKr215	Neth	Fl 3.75	Slovak Rp	KSL45
Cyprus	C£1.00	India	Rs40	Nigeria	Naira45	South Africa	R12.00
Czech Rp	CZK45	Israel	Shk6.90	Norway	NKr20.00	Spain	Pta210
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Sweden	SKr15
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Switz	SFr3.20
Finland	FM15	Jordan	JD1.50	Philippines	Pes45	Syria	S£50.00
France	FFr9.00	Kuwait	Fils600	Poland	Zl 32,000	Tunisia	Din1.250
Germany	DM3.30	Lebanon	US$1.25	Portugal	Esc215	Turkey	L8000
						UAE	Dh11.00

London accuses Commission chief of 'cynical ploy' in delaying white paper

Delors and Major head for clash on job creation

By Lionel Barber in Brussels and Philip Stephens in London

Mr Jacques Delors, president of the European Commission, was heading last night for a bitter clash with Mr John Major, UK prime minister, on the eve of this week's European summit which is billed as the launchpad for a European drive towards higher growth and employment.

A senior Downing Street aide accused Mr Delors of a "cynical and transparent ploy" in delaying completion of his white paper on growth, competitiveness and employment, until just before tomorrow's summit in Brussels.

Other Whitehall officials described the bulk of the report as "irrelevant" and attacked plans for substantial EU spending on roads, rail and telecommunications, to be funded partly through the floating of new "Brussels bonds".

In a pained response last night, European Commission officials said the UK government had overlooked the white paper's shift in favour of labour market deregulation as a means of tackling mass unemployment in Europe, expected to rise to nearly 20m next year.

PAGE 3
■ Greek EU presidency plans early summit
■ Swedish prime minister gets sniffy with Brussels
■ Editorial Comment Page 15

At a news conference yesterday, Mr Delors called for lower employment costs, a scaling-back of minimum wage legislation for unskilled workers and a slowdown in Brussels-led social policy legislation.

"We have to see if the time is right to adopt a minimal rights approach again. If you set the minimum too low, we come to social dumping; but if you set it too high you price people out of work," he said.

Mr Delors made the need to restore competitiveness and growth a top priority for creating new jobs. He also ruled out fiscal incentives to promote worksharing, while not excluding such measures among individual companies as a temporary measure.

Mr Delors's remarks appeared aimed at blunting criticism from deregulation-minded countries such as the UK, Germany and the Netherlands, but also at forging a broad coalition with European business leaders who have called for urgent steps to reduce labour costs in order to compete with the US and Asia. The white paper is expected to be the centrepiece of the two-day European summit, but Mr Delors, more ebullient than usual, made clear that he intends to reopen other contentious issues about the pace of European integration.

In remarks likely to alarm both the British and the Germans, the Commission president called for a stronger role for the European Monetary Institute in the co-ordination of monetary policies and the management of the exchange rate mechanism. Stage one of Emu – aimed at bringing about greater convergence among member states' economies – had been a "failure," he said.

Although British criticism of the white paper has largely been discounted in Brussels, Mr Delors' aides are nervous that other countries – notably Germany – may join the UK in opposing spending up to Ecu20bn ($22.8bn) a year on transnational networks in transport, telecoms, energy and the environment, most of which is already in the EU budget.

Reuter

European Commission president Jacques Delors favours labour market deregulation to tackle jobs crisis

Russian republics warned 'vote Yes'

By John Lloyd and Leyla Boulton in Moscow

Senior Russian politicians yesterday threatened reprisals against leaders of republics who have called for a No vote in Sunday's referendum on a draft constitution for Russia. Fears are growing that the draft will not be adopted.

Warnings of reprisals, and of chaos if the referendum is not passed, reflect intense concern within President Boris Yeltsin's camp that the constitution will not be adopted and that a new period of political instability will result.

The referendum must be approved by a 50 per cent vote on a turnout of at least 50 per cent of the voters – a result originally considered attainable but now believed to be threatened by widespread apathy and hostility.

Mr Sergei Filatov, Mr Yeltsin's chief of staff, warned the presidents of Russia's republics who have called for a No vote that the armed forces, security forces and interior ministry were "seriously concerned" by the opposition to the constitution, especially by the leaders of Tatarstan, Bashkortostan and Tuva. A government reaction to this opposition was now being prepared, he said.

"Those who are making war on the constitution ... should take care of the unity of the Russian federation, or we shall lead our state to catastrophe."

Mr Nikolai Medvedev, head of the president's department for relations with the Russian regions, warned still more pointedly: "Even after the tragic events [of October 4 when the Russian parliament was shelled by the army] they are not behaving responsibly in what they say [and] ... they are answerable before their consciences and the state, as state officials."

A statement from the leadership of the rebel Russian republic of Chechnya, the most extreme of the anti-Moscow republics and the only one to ban all voting on Sunday, said Mr Yeltsin had made a declaration of war by threatening to tighten border controls and cut rail links.

Chechnya, under General Dzhokar Dudayev, has declared complete independence and is a

Continued on Page 16

● Agriculture 'not an obstacle' ● French parliament to vote on any accord next week

Balladur declares a partial Gatt victory

By David Buchan in Paris and David Dodwell in Geneva

Mr Edouard Balladur, France's prime minister, yesterday declared a partial victory in trade talks with the US, and said he would put any overall Gatt accord before parliament early next week in a vote that he seems confident of winning.

"We have emerged from our isolation without conceding anything essential," he told cheering deputies from his conservative coalition. Opposition Socialists and farm union leaders complained, however, of a cave-in.

Agriculture "is no longer an obstacle" to agreement because Europe's deal with the US this week was "satisfactory in a great deal more than half" of it, he said. His most positive statement to date on Gatt helped push the franc back through its former European exchange rate floor of FFr3.4305 to the D-Mark, which France abandoned in August.

However, Mr Balladur is keeping up the pressure on his European Union partners to compensate France for what it failed to get from the US. "I hope for a Gatt agreement, but I cannot give you the certainty of one," he told French deputies. He said the next three days, covering the EU summit starting in Brussels on Friday, "will be decisive".

Mr Balladur rang Mr Helmut Kohl, the German chancellor, on Tuesday night and Mr Ruud Lubbers, the Dutch prime minister, yesterday morning to lobby them on tougher European protection against unfair trade and for more money to compensate farmers.

PAGE 6
■ Environment moves up the Uruguay Round agenda
■ Dumping rules accord near

Mr Alain Juppé, the foreign minister who also holds the key political job of secretary-general of Mr Balladur's RPR gaullist party, warned that the EU might have to increase the farm share of its budget, a move sure to be resisted by Britain and the Netherlands.

By maintaining his tough stance to the end, Mr Balladur seems likely to carry with him most of his ruling coalition which has an overwhelming majority in the National Assembly. He has virtually ensured this by making next week's vote an issue of confidence in the government.

However, French farm unions remained unconvinced by what they called yesterday "the so-called advances" on agriculture. The CNJA young farmers' union warned its members might take to the streets again.

Meanwhile US and EU negotiators in Geneva began bilateral meetings explaining details of the US-EU deal to other countries in the Uruguay Round of international trade talks. Gatt officials moved to finalise texts for a global trade accord that has until now been blocked by US-EU disagreements.

Mr Germain Denis, who chairs the Gatt committee drawing up a global market access deal, briefed a group of less than 20 countries on a tentative final package that he hopes to table before all 116 countries this morning.

With a tariff-cutting market access deal close, negotiators moved on to the outstanding disputed issues – mainly efforts to open up financial services markets, and controversial US proposals enabling tax discrimination against foreign companies.

Daimler-Benz plans radical shake-up to revitalise AEG

By Christopher Parkes in Frankfurt and Christopher Brown-Humes in Stockholm

AEG is to sell its household appliances business to Electrolux of Sweden in a radical shake-out designed to return the loss-making Daimler-Benz subsidiary to break-even in 1995.

Other projects outlined by AEG yesterday include joint ventures with General Electric of the US, a new structure for its railways operations, collaboration deals and the disposal of "fringe" businesses in lighting and meters.

Mr Georg Stöckl, AEG chairman, said the changes would reduce turnover from DM11bn last year to DM9.3bn ($5.5bn) and the payroll from 60,000 to 48,000. In future, the company would be known as AEG Daimler-Benz Industrie, he said.

The plans are central to the restructure of Daimler-Benz, Germany's biggest industrial concern. Daimler, which expanded vigorously from the mid-1980s, when the management decided to construct a world-class high-technology group, is further reducing its range of activities.

Its Deutsche-Aerospace (Dasa) subsidiary recently announced the closure of six German factories and sites and warned of further possible cuts if conditions failed to improve. Last year AEG closed Olympia, its lossmaking office equipment business.

Daimler is also striving to generate more market strength in sectors which it considers core to its main concerns through partnerships and strategic alliances.

Mr Stöckl said a letter of intent had already been signed with GE for the US group to take a majority stake in AEG's low voltage switchgear business. GE was also to manage a joint venture embracing both companies' interests in drives automation.

Although AEG is known to be seeking a partner for its loss-making DM1.5bn a year railways business, the current focused is to reduce costs by DM180m a year. Projects include the closure of one factory and job cuts.

Further cost savings are expected from intra-group deals under which AEG is to take full control of Daimler's microelectronics business. At present it has an equal share in Temic Telefunken with Dasa. The high-performance diesel engine activities of MTU, also part of Dasa, are to be rolled together with AEG's in a business employing 5,300 with sales of about DM1.5bn.

Mr Stöckl gave no details of the price expected for the appliances business, in which Electrolux already has a 10 per cent stake, but said the Swedish group had agreed to keep open the company's three German factories.

Completion of the deal depends on approval by the European Commission competition offices, but early signals are that the authorities are satisfied there is enough competition in the field, such as Whirlpool and Bosch-Siemens, to prevent problems.

The deal would give Electrolux an estimated 35 per cent of the German white goods market, compared with 20 per cent today, and would boost its share of the European market to some 30 per cent from 25 per cent.

The group does not foresee regulatory problems, partly because most of its sales in Germany are generated through an intermediary called Quelle, which is free to choose a different supplier.

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Contenders line up for next Sunday's democratic parliamentary elections

Warhorses and gadflies in Russian race

By John Lloyd in Moscow

Russian politicians competing in the campaign ahead of the parliamentary elections on December 12 speak for constituencies as yet largely unformed. A propertied class is still in the making; it has not differentiated itself fully from a working class.

"Liberals" and "conservatives" do not come with a package of beliefs and policies – reflecting the still fragile existence of parties which, in settled democracies, package such policies and use party discipline to impress them on their members.

There is only a small number of professional politicians, and they are conscious of their unpopularity.

The 13 groups and parties presently registered to participate in the elections thus seek to bring in to the political fold public figures from the intelligentsia, from literature and the arts, and from the stage and television.

The result, in many of the blocs, is a rich mixture of warhorses and gadflies, each of whom is concerned to express his or her individuality.

This first parliamentary election in Russia may also be the last before the minders, media managers and massagers of the message move in: it is thus a blessed time for the voyeur of the political scene, even if, probably, the individuals contending for office are unlikely all to make serviceable deputies.

Honest man striving to sell off the state

Deputy prime minister Anatoly Chubais, a leading candidate for Russia's Choice, has been architect of the world's most ambitious privatisation programme, writes Leyla Boulton in Moscow.

His conservative opponents claim his sell-off – which has already put about half of Russian industrial capacity into private hands – will be remembered as one of the world's biggest flops. However, the 38-year-old economist from St Petersburg has brushed off the criticism, saying "it means I've been doing the right thing".

Even the prime minister, Mr Victor Chernomyrdin, who once compared his privatisation to Stalin's collectivisation, has had to give in to the irreversible process set in train by the distribution of privatisation vouchers to Russia's citizen. And while other reformist ministers, including Mr Yegor Gaidar, the leader of Russia's Choice, have come and gone, wavered and compromised, Mr Chubais has kept both his job and his principles since the launch of radical reform in January 1992.

His reserved manner and boyish charm conceals a formidable and thick-skinned political operator.

"He thinks strategically, and then fights as much as it takes, compromising only when necessary," says Professor Anders Aslund, the Swedish economist who has advised the Russian government and is a personal friend.

"It is because of his political skill that privatisation has been the most successful part of the economic reforms so far." It is in order to complete what he sees as e historic mission of switching the state-dominated economy to "real owners" that he helped set up Russia's Choice and is running for parliament in his native city.

Competing parties in the elections continue to assert that his blanket approach to privatisation is insensitive to the needs of individual companies and sectors. He defends it as the only way to minimise corruption, break the stranglehold of bureaucrats on the economy and make enterprises behave in a more market-orientated way.

In order to ensure support for the campaign, he has also given factory directors and workers the option of acquiring up to 51 per cent of the shares in their companies.

His next step, he says, will be to focus on the economic restructuring of privatised enterprises, helping those who want it and accelerating bankruptcy proceedings against hopeless companies.

Consolidating his stature as a nationwide politician is the network of local representatives of his State Property Committee in every town and city of Russia.

An intensely private man, he has little time for a personal life, even employing his wife, Maria Vishnevskaya, who is also an economist, to brief him on aspects of privatisation.

A puritan in comparison to many of his colleagues, he is strikingly honest for someone in such a potentially corrupting job. Despite having control of most state-owned property in Russia, he spent his first year in office living in a small Moscow hotel rather than taking over a nice Moscow flat.

He may not have the burly-burly bonhomie of many a Russian politician. But he is looking to the election to confirm that his privatisation, despite seven decades of hostility to private property under Communism, is indeed, Russia's choice.

Anatoly Chubais: economic architect

Reformer who is a natural baby-kisser

A discovery of the Russian election campaign has been that Mr Grigory Yavlinsky is a politician. He is good at the glad hand, the impromptu speech and the ready quip, writes John Lloyd.

At his meetings, he works the crowds, senses their mood, plays to it. If baby-kissing were to come into vogue (it is far too cold) he would be good at that, too.

He is the only candidate outside the ranks of the government with a reputation both in Russia and outside. His reformist credentials were displayed in market reform plans – co-authored with Mr Stanislav Shatalin in 1990 and produced with a group of Harvard economists in 1991 – which were both shelved by Mr Mikhail Gorbachev.

Briefly a deputy prime minister after the August 1991 coup, he worked frenziedly to get agreement between the Soviet republics on an economic union. For the past two years, Mr Yavlinsky has run a consulting company, EpiCentre, and kept his name in the public arena. Earlier this year, he was the first to declare that he would stand for the presidency as soon as he could.

The party he has formed to fight these elections, called Yabloko (apple) – an acronym of the surnames of the leading candidates' surnames, being Mr Yavlinsky, Mr Yuri Boldyrev and Mr Vladimir Lukin – is presently running second in the polls after Mr Yegor Gaidar's Russia's Choice. He says he is confident of taking a large bloc of seats in the new parliament, but co-operation with Mr Gaidar, he says, will "depend on Gaidar: he will have to recognise our strength and come to terms with what we stand for".

What Yabloko stands for is a much more active state – but a state dedicated to the creation of a market which renders it quickly redundant, "by rapidly breaking up monopolies, by the promotion and protection of competition, by careful land reform, by clarifying and regulating property relations and by widening the area of the private sector".

He has advanced a consistent critique of Mr Gaidar's economic programme as being misdirected, by putting financial stabilisation before the development of a competitive market. Freeing a monopolistic economy from state control does not necessarily create a competitive economy, he argues.

He himself professes the instincts of a liberal, even a libertarian. "People must depend on the authorities as little as possible . . . the more they are independent of the state, the stronger is civil society. The stronger civil society, the more secure is life itself."

His strength and weakness is that he is a loner, and something of a prima donna.

That has kept him free of alliances and outside government: it will also make it hard for him to compromise if and when he is called on to do so.

He is given to high-profile and dramatic interventions – as when he appealed to Mr Alexander Rutskoi, the former vice-president, to end his self-imposed captivity in the Russian parliament in September – and he is relentlessly self-confident and egotistical.

Mr Yavlinsky is in the power-struggle for the long haul: it will be surprising if his period out of power lasts much longer.

Yavlinsky: prima donna role

Intellectual imported into party politics

Alexander Tsipko is an outstanding example of an intellectual imported into party politics. A twinkling-faced, fast-talking man in his early 50s, he is a Civic Union candidate, writes John Lloyd.

The Civic Union is led by Mr Arkady Volsky, head of Russia's main industrialists' union, and numbers among its leading candidates Adm Vladimir Chernavin, admiral-of-the-fleet and a former Soviet deputy defence minister. Yet Mr Tsipko is unabashedly an intellectual – and a semi-dissident one, at that.

He came to prominence in 1988, when he published a series of articles in a relatively obscure journal locating the tyrannical genesis of the Soviet state not in Stalin, not even in Lenin, but in the writings of Karl Marx himself. He claimed that Marx had laid the theoretical foundations of a politics which was bound to be monopolistic and, as it turned out, murderous.

Even in the early days of glasnost this was heady stuff; the more so since Mr Tsipko worked in the Communist party central committee as a consultant under the liberal aegis of Alexander Yakovlev, chief party ideologist.

Mr Tsipko has now launched himself against the current leadership: President Boris Yeltsin and the radical reformers of Russia's Choice.

"He [Mr Yeltsin] is the typical party product: rude and vulgar. He is not used to opposition so he does not have it round him. When he was first party secretary in Sverdlovsk he was among the most enthusiastic of the Communist leaders: very firmly against any kind of experiments with reform.

"Everything is now very black and white – just as it used to be with capitalism and socialism. Now, if you are not for the president, you are a fascist; if you do not agree with the new constitution, you are a terrorist. I do not agree with the new constitution: it cannot last.

"The reformers are typical representatives of the intelligentsia which came to maturity in the 1970s. They did nothing. They never showed any signs of dissidence. Only when they were given permission under glasnost did they begin to show some signs of action.

"Now, they still act like Bolsheviks. They treat the country like an empty field, ready for their experiments – only now it is the imposition of capitalism and not of communism."

Mr Tsipko puts himself in the same frame as east European dissidents who are speaking out against the victimisation of Communists by the new anti-Communist forces.

"This was a country created by the Soviet period. You cannot make that disappear suddenly. You must recognise and work with this. Gaidar forced the break-up of the Soviet Union. I was against that. It ripped apart what had been constructed and which was working in some way.

"There will certainly be a united centrist bloc after the elections . . . By making politics black and white the president and his supporters are trying to squeeze it out, but it must exist if the country is to survive. I remain a liberal, but I also want a strong state; the two are not incompatible. Indeed, I would say the first depends upon the second."

Tsipko: fast-talker

Blood, sweat and tears – for others

Mr Vladimir Zhirinovsky, leader of Russia's extreme right-wing party, is campaigning on a platform of "blood, sweat and tears" – for everyone, that is, except the Russians, writes Chrystia Freeland. "Why should we create suffering for ourselves?" the husky, 47-year-old lawyer-turned-politician asks. "We should create suffering for others."

Translating this rhetoric into a political programme, the head of Russia's deceptively named Liberal Democratic Party says he will make Russia rich again by selling arms to the highest bidder, including such pariah states as Libya and Iraq, and by bringing an immediate halt to all subsidies – including the sale of fuel at less than world prices – to other former Soviet republics.

Mr Zhirinovsky supports President Boris Yeltsin's draft constitution because it would lay the ground for the sort of strong, centralised state he favours. He is also promising to renew Russia's international prestige by defending the rights of ethnic Russians everywhere, bullying Russia's immediate neighbours and talking back to the west.

His aggressive Russian nationalism has, however, forced him to engage in some contortions to explain his own, not entirely "pure" ancestry. He stresses that although he comes from Alma Ata, capital of Kazakhstan, "I was born among Russians and so I consider myself to have been born in Russia itself."

But, while Mr Zhirinovsky's flamboyant style and hyperbolic language make it tempting to dismiss him, there are growing indications that the extreme right, rather than the Communists, will be the beneficiary of the protest vote in this weekend's elections.

"The Russian people have three choices," Mr Zhirinovsky says. "We can either choose that which we have now by voting for Gaidar or Yavlinsky, which does not suit many people. Or we can choose to go backwards, by voting for the Communists, which also does not suit many people. My party represents a third choice."

Mr Zhirinovsky, who seeks simultaneously to emphasise his humble origins (his autobiography begins with a sentimental description of his birth and childhood in a crowded, communal apartment) and his superior intellect ("tell your readers that Zhirinovsky knows four languages and graduated with honours from Moscow University" he instructs a journalist), is refreshingly frank about which sectors of Russian society are most likely to opt for his "third choice".

"In the large cities, where the more cultured, better educated, more prosperous classes live, we will not do so well. But in the small cities, in the rural areas of Russia, among the poor, among the young, among the military personnel, we will be supported."

As one of the few leading politicians to have never been a member of the Communist party, he certainly has the potential to conjure up a dangerously appealing vision of Russia. With his promises to "bring the non-Russian republics to their knees", reverse "Gorbachev's and Yeltsin's policies of giving everything to the west" and, most magically of all, to raise wages while stopping inflation, Mr Zhirinovsky represents what many Russians dream of: a Russia which is a great power, but not a Communist one.

Vladimir Zhirinovsky: pain for non-Russians

Carrying the banner of communism

"We must understand this: life puts this issue before us – either we understand the seriousness of our position and mobilise our resources to fight for our very existence, or Russia as an independent country and the Russian people as a historic, spiritual community will disappear from the face of the earth." Thus speaks Mr Gennady Zyuganov, leader of the Russian Communist party, writes John Lloyd.

Mr Zyuganov, a commanding and impatient man of 49 who spent much of his life as a party official, now carries the banner of communism in a post-Communist society – and, according to opinion polls and impressionistic evidence, is likely to carry it into the new parliament with a significant number of deputies.

Denounced by other fundamentalist Leninist groups for taking part at all in the weekend's elections, Mr Zyuganov defends the decision as what the vast majority of his party's membership – claimed at around 500,000, and by far the largest in Russia – wanted.

But his adherence to democratic norms is delicate, and his anti-reform themes familiar. "They [the government] cannot claim they are taking the democratic road when they close opposition papers," he argues. "We agree that state property must be more widely spread but not by a collectivisation in reverse where you destroy the whole system of production and management".

The theme with which he is most closely associated, however, is that of the need to save Russia from an international conspiracy. In electing him leader, Russia's Communists have chosen a man who projects himself as in basic agreement with the most vigorous of nationalists.

"Russia," he says, "is being destroyed deliberately and consistently: [its enemies] are fighting not against socialism, but for the realisation of a plan to push her out of the geopolitical arena. We are the last power in the world which can stand up against the new world order of a global, cosmopolitan dictatorship."

This last phrase has been a codeword for the baleful influence of Jews, the "rootless cosmopolitans" which Russian chauvinists use as a theme to substitute for that of attacking the nation's ills.

Mr Zyuganov developed his ideology within the Communist party, but within that powerful part of the then ruling party which emphasised national greatness and Russian ethnic dominance. Now, Mr Zyuganov is emphasising the need for the unity of the Russian people as the aggrieved victim surrounded by hostile foes – a posture with a long history.

There is no contradiction here with socialism and a class approach, he says, because the country needs "those forces which put first the task of resurrecting the traditional values of Russian power and collectivism. . . . where the whole people, . . . feels itself to be one family".

The family, however, is not one: it never was, except in nationalist or Leninist myth. Yet Mr Zyuganov can expect votes from that considerable part of the population who benefited from state communism, and that larger part who regret the passing of a great power which called itself Soviet but, as Mr Zyuganov says, was Russia writ large.

Zyuganov: commanding

Bonn makes spending compromise

By Quentin Peel in Bonn

The German government yesterday abandoned a key measure to curb the rise in social spending, by agreeing not to set a strict time-limit on earnings-related unemployment benefits.

The plan, which had aroused widespread anger in the trade union movement, was dropped as part of a last-minute compromise to enable the overall government savings package, cutting some DM20bn (£7.9bn) from next year's federal budget, to become law.

The deal was possible thanks to what amounts to a "grand coalition" between the government and the opposition Social Democrats (SPD), who had blocked the savings package with their majority in the Bundesrat, the upper house of parliament.

However, the Free Democrats (FDP) in the ruling coalition warned that now a further DM2.5bn would have to be cut from government spending, if the federal deficit was to be kept under DM70bn next year.

Mr Theo Waigel, the finance minister, had sought to impose a maximum four-years limit on earnings-related unemployment benefits, while at the same time cutting the benefits by some three percentage points as a proportion of income.

The compromise was thrashed out in the early hours of yesterday morning in the conciliation committee of the two houses of the federal parliament, the Bundestag and Bundesrat.

The lower levels of unemployment benefit will still come into effect next year.

The deal also means that social assistance, the lowest level of social security for those who do not qualify for unemployment benefit, will be increased by 2 per cent per year for the next three years, instead of being frozen from mid-1994.

Another concession is that so-called "bad weather money" for building workers laid off in the winter will be reinstated, but limited to just two months in mid-winter. The planned cancellation had caused massive demonstrations by building workers.

Mr Waigel said that the 16 states, a majority of which are ruled by SPD-led governments, had succeeded in protecting their own spending plans at the expense of the federal government.

Two jailed for attack on Turks

By Ariane Genillard in Bonn

Two German skinheads found guilty of murdering three Turks last year were sentenced yesterday to maximum jail sentences. Michael Peters, 26, was jailed for life and Lars Christiansen, 20, received a 10-year prison sentence – the maximum for a juvenile.

The verdict was "the strongest signal yet given to neo-Nazis by a German court", said Mr Hans-Christian Stöbele, the prosecutor in the case.

The two skinheads were charged with three counts of murder for burning down the home of a Turkish family in the northern town of Mölln in November 1992 and causing the death of an elderly woman and two young girls.

The Mö lln attack shocked west Germans, many of whom demonstrated in candle-lit marches across various cities. Candles and flowers still mark the site of the attack where the destroyed house has now been replaced by condominiums.

The verdict was applauded by members of the Turkish community in Germany. But they were quick to point out that police had still brought no-one to trial for the murder of five Turks who died in an arson attack last spring in Solingen.

Meanwhile, Mr Nobert Weise, the North Rhine-Westphalia prosecutor, said that far right extremists had been compiling files, including names, addresses and photographs of anti-fascist organisers in Germany and of members of the far left.

Air France to shed more than 2,000 jobs

By John Ridding in Paris

Air France, the state-owned national carrier which wae forced to abandon e restructuring plan in October in the face of a crippling strike, is seeking to cut 2,100 jobs next year through voluntary measures, the company said yesterday.

The job cuts, which will comprise early retirements and increased part-time work, are part of new plan aimed at stemming losses forecast to reach FFr7bn ($1.2bn) this year. The plan is expected to be announced next week, a spokesman for the company said.

The airline's operations have returned to normal following the October etrike, which lasted for more than a week and forced the resignation of Mr Bernard Attali, tha group's chairman. Mr Attali was seeking to reduce the company's 63,000 staff by 4,000, again through voluntary measures, and to cut overtime pay and bonuses.

Mr Christian Blanc, who succeed Mr Attali at the head of the airline, has presented his proposals for the 2,100 job cuts to the company's unions. He is expected to present further recovery measures at the beginning of next week.

Unions at the airline have said they will continue to oppose cost-cutting measures which involve involuntary redundencies and which impose an unfair burden on employees. One of their principal complaints against Mr Attali's restructuring plan was that they felt it discriminated against ground staff.

The French government was forced to retreat in the etrike at Air France, its first serious industrial dispute since taking office in March. Faced with an unemployment rate of 12.2 per cent it has ordered public sector companies to avoid involuntary redundancies.

Nato to plan for a wider role

A new Nato command system enabling allies to send task forces for peacekeeping and other missions outside their own territory is due to be drawn up within six months, writes David White, Defence Correspondent, in Brussels.

A US-inspired Combined Joint Task Forces scheme, which would involve setting up "flexible" headquarters able to deploy ad hoc forces is set to be formally approved by allied leaders at their Brussels summit on January 10-11. Nato military authorities will be asked to present detailed plans to ministers by June.

The scheme reflects growing emphasis on Nato's ability to act more effectively in crises such as the former Yugoslavia.

Crucial to the scheme would be the participation of France and Spain, which belong to Nato but keep their forces outside the alliance's mainstream military structure.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

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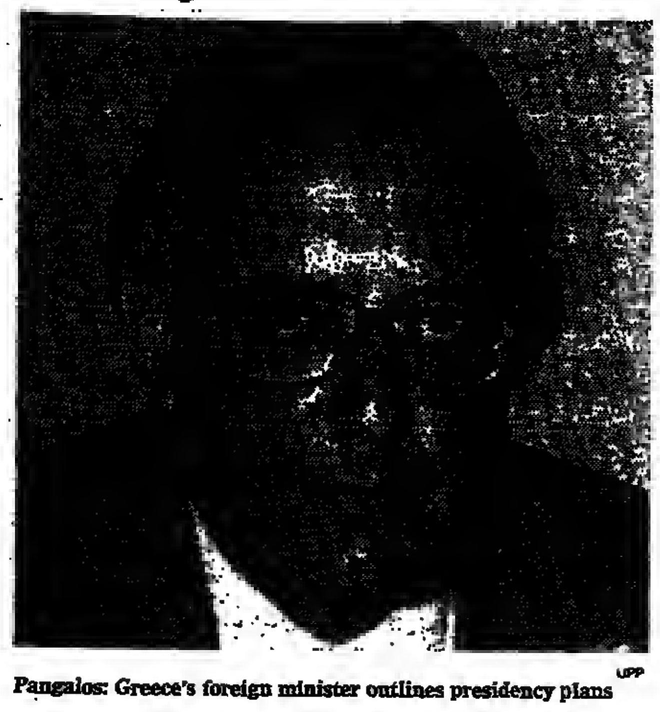
NEWS: EUROPE

Greek presidency plans early summit

By David Gardner in Brussels

As European Union leaders prepare for their two-day summit in Brussels beginning tomorrow, a new special summit is already being mooted for early next year to try to conclude difficult negotiations on EU entry for Austria, Sweden, Finland and Norway.

Mr Theodoros Pangalos, the Greek alternate foreign minister who will chair the Council of Ministers when Greece takes over the EU presidency in January, says Athens initially plans a top-level meeting between prime ministers of the four applicants, Mr Andreas Papandreou, the Greek prime minister, and Mr Jacques Delors, president of the European Commission. The Greek presidency would then call a special summit "if the political will and conditions for a success are there", Mr Pangalos said.



Pangalos: Greece's foreign minister outlines presidency plans UPP

The EU has set an ambitious March deadline to finish the enlargement negotiations, essential if the four members of the European Free Trade Association are to become members by January 1995 as planned. But by early next year, the remaining obstacles to their entry will require "settlement at a high level", Mr Pangalos believes.

One of the main issues to be resolved is how to share the cost of compensating farmers in the four applicant countries for their far higher agriculture subsidies, which Brussels intends to align to EU prices. At the moment, the EU argues that the four should foot the bill. But senior EU officials recognise that tough negotiations will lead to a dividing up of the approximately Ecu2.2bn (£1.67bn) a year cost between the 12 and the four.

A further complication, likely to surface at the Brussels summit this week, could come with changes in EU voting rules to accommodate the new entrants. Of the existing 12, the small member states are determined that the present weighted majority voting system in the Council of Ministers should simply be extrapolated from 12 to 16 members.

The system now is that 23 votes out of 76 can block a proposal – or roughly two big countries and one small country. An arithmetical transposition of this system to a 16-member EU would mean 27 out of 90 or 92 votes would be needed to block decisions, meaning that two large member states would need to pick up at least two and sometimes three smaller allies.

The big member states want a lower blocking threshold to preserve their influence. The UK is being particularly aggressive, arguing for retaining the "blocking minority" at 23 votes. But some smaller member states, such as The Netherlands and and Ireland, say this will so alter the balance of power in the Union that it could end by breaking it up. The four candidate governments argue that a tilt in favour of the powerful would lose them the referendums on EU entry they are all committed to hold next year.

P&O chief rejects cartel claims

By Andrew Hill in Brussels

Lord Sterling, chairman of P&O, the British transport and shipping group, yesterday hit back at allegations that a group of 15 shipping lines was abusing its dominant position on routes between Europe and north America.

The European Commission yesterday lodged a formal statement of objections to the Trans-Atlantic Agreement, which was signed by 15 large shipowners last year to cut losses and fight over-capacity.

Exporters have complained that the TAA is an illegal cartel which has limited capacity and forced them to pay more for exporting goods to the US. But Lord Sterling, speaking on behalf of TAA members, including P&O, said yesterday that the agreement was essential to the health of the industry.

"The whole point is that there's no way we can give them [the exporters] the service they expect or want, without getting a realistic return on the capital investment employed," Lord Sterling said.

Lines involved in the TAA had lost a total of $650m (£436.2m) over the last four years, he said.

Lord Sterling also denied that the Commission would be able to fine the TAA if the agreement was ruled illegal, because the shipping lines had kept Brussels fully informed of its existence.

The lines believe the TAA is a shipping "conference", which should be exempt from competition rules.

But the Commission said yesterday that even though the TAA had been notified to the competition directorate, the Commission could impose fines if it decided the lines were abusing their dominant position in the market.

Last year, the Commission levied heavy fines on two illegal cartels operating between Europe and west Africa, to the profound irritation of the shipowners involved.

The Commission is now calling for negotiations with the shipowners and other interested parties in an attempt to amend the TAA so that it will be compatible with competition rules. Brussels officials say that although the TAA is aimed at alleviating over-capacity on the transatlantic routes, it has not led to real restructuring.

The TAA is likely to have two to three months to respond to the allegations from Brussels.

Mr Karel Van Miert, the commissioner responsible for competition laws, has already decided that exporters' complaints do not justify temporary measures against the TAA and Lord Sterling said yesterday that he believed the Commission would not need to take further action.

Swedish PM gets sniffy with Brussels

By Hugh Carnegy in Stockholm

Mr Carl Bildt, the Swedish prime minister, yesterday accused Brussels of showing "political insensitivity" in negotiations over Stockholm's application to join the European Union.

But he said an accession agreement could be reached by the EU deadline of March 1 if several key issues were resolved at the next ministerial-level talks on December 21.

In an interview with the FT, Mr Bildt raised the now celebrated case of *snus* (snuff). The EU is resisting a Swedish demand for a derogation from a EU ban on the orally-taken wet snuff that is widely popular in Sweden.

"The snuff issue is a detail in itself but it has become a symbol of Brussels' interference with tha way of life of ordinary Swedes. There has been a degree of political insensitivity, especially on the part of the commission, that has not been to our advantage in the debate (about EU membership)."

He said the issue was one of several "crucial issues" which he wanted to "sort out" at the December 21 meeting. The others cover differences in environmental standards, securing EU acceptance of Sweden's free trade agreements with the Baltic states and resolving EU demands that Sweden unwind its tight state monopoly on the production, importation and sale of alcohol.

If they were resolved, talks would move on to the issues of regional policy, agriculture and budget contributions. "These are all money related, and so are interlocked, and will probably be solved within the context of continuous negotiations. That should be feasible," Mr Bildt said. The prime minister rejected suggestions that Sweden was starting to turn its back on Europe, an impression created by the rejection of the proposed merger between Volvo and France's Renault, opposition to the building of a road and rail bridge to Denmark and opinion polls showing majority opposition to joining the EU.

He said the rejection of the Renault-Volvo merger was due not to Swedish nationalism but to what he described as the mistaken view that Volvo would subsequently suffer from interference by a "nationalist French system". Opposition to EU membership was no greater than anti-Union feeling in many member countries, he said. "I am concerned (about Swedish opposition), but I am more concerned by general attitudes in Europe, not by any turning away from Europe in Sweden.

"Swedes are affected by the general shift of opinion caused by what is going on in Europe – the development of economies, unemployment, Yugoslavia and all that is associated with that. All these are seen as a failure of Europe."

Serbs pay high price for their role in Bosnia

By Laura Silber in Belgrade

Mr Nikola Jankovic, a Belgrade pensioner, rifles through the pockets of his shabby overcoat looking for 25 D-Marks (£10) to pay for his medicine. The German currency has all but replaced the dinar as accepted currency in the former Yugoslavia.

Mr Jankovic's monthly pension of DM2 is "only enough to die with", he says. He buys a double portion of tranquillisers because it is cheaper that way.

The monthly rate of inflation in Serbia has hit 50,000 per cent, surpassing the record 44,000 per cent inflation of the Weimar republic in 1923, according to Mr Mladjan Dinkic, a Belgrade economist.

Serbia's economy is disintegrating after nearly three years and 9 months of United Nations sanctions. Industrial production last month fell by 38 per cent.

Prices are climbing into the trillions. Belgrade economists say the federal government will soon strike another six noughts from dinar notes.

The UN was told on Tuesday that the sanctions, imposed for Belgrade's role in the violent carve-up of Bosnia, had cost $20bn (£13.4bn). By the end of this year, per capita income is expected to be $200 to $250 a year.

Spending cuts on public transport mean that trams are packed so full they drive with the doors open. The government on Monday ordered electricity cuts after early winter weather had overloaded local power stations. Despite official denials, diplomats in Belgrade forecast that electricity restrictions will soon be become a regular occurrence.

On Belgrade's Bulevar Revolucije, cash transactions are based only in D-Marks. Mrs Sonja Durovic, the chemist, dismisses any idea of a revolt against Mr Slobodan Milosevic, president of Serbia, despite the hard times.

"The Serbs are used to being stomped on," she says, explaining that people are preoccupied with making ends meet rather then finding someone to blame for the crash in their living standards.

With an iron grip on state television, Mr Milosevic has managed to channel popular resentment about the economy towards the west for imposing sanctions on Belgrade.

However, Mrs Durovic points out how the economy had already begun to slump on the break-up of trade between the former Yugoslav republics in 1991.

Mrs Durovic somehow seems to cope but she fears she will soon have to close down her chemist's shop.

The Serbian government last month passed a *diktat* ordering 200 private chemists to meet prescriptions – locally-produced drugs are free, while imports have to be paid for – and receive payment from a state health fund later.

"Now we've all withdrawn our drugs from the shelves. We cannot give tham away for free. The state is trying to run us out of business," she complains.

In the run-up to elections, Serbia's ruling Socialists are eager to create the impression that they are reviving the economy. Official propaganda is in stark contrast to the grey picture on the icy city streets.

Black marketeers hawk their wares – smuggled from Turkey, Bulgaria or Hungary – indoors, state shops are empty. Serb officials say 70 per cent of commerce is on the black market, eluding tax collectors.

Strapped for cash, Serbia has ordered the non-stop printing of dinars to try to lure any D-Mark savings from the 9.8m citizens.

Economists estimate that national savings have dipped to an average of DM240 per household.

Marko, a scarf wrapped round his face, says he escaped from Bosnia, but can barely eke out an existence selling soap, washing powder, and tins of humanitarian aid. "Everyone asks the price, but no one buys anything."

Bosnian government envoys in London yesterday launched a bitter attack on the British government for refusing to lift the arms embargo, and deplored the UN's threats to withdraw humanitarian aid if a political settlement were not found, writes Gillian Tett.

Their comments, made at the start of a conference on Bosnia, came after senior UN officials in London admitted that the problematic UN operation in Bosnia was casting a serious doubts over the future of UN peacekeeping.

Brigadier Vere Hayes, former UN chief of staff in Bosnia, said that the UN peacekeeping forces had lacked the proper military command structure or support needed to run the operation.

Nigerian external debt arrears hit $6bn

By Paul Adams in Lagos and Michael Holman in London

Nigeria's external debt arrears have reached $6bn and are expected to rise substantially as weak international oil prices hit the country's main export, western creditors and bankers warned yesterday.

Nigeria's most serious economic crisis since independence in 1960 has deepened since last month's removal of Chief Ernest Shonekan, the civilian leader of the military-backed government, and the fall in the price of Nigeria's Bonny Light crude oil from a peak of $20 a barrel in early March to the present current level of $14. The 1993 budget was based on $17.50 a barrel.

The new government, led by Gen Sani Abacha, the former defence minister, is split over economic policy, making it difficult to agree on the 1994 budget, due to be presented on January 1. Mr Kalu Kalu, the new minister of finance, has argued for the budget deficit to be cut, white-elephant projects to be cancelled, and foreign exchange deregulated to allow market rate to be set for the naira, paving the way for a deal with the International Monetary Fund.

The other camp, led by Mr Aminu Saleh, secretary to the government, and a previous finance minister, want more state control and regulation. They want the naira revalued to N15 per dollar (it fetches over N40 on the parallel market) and strengthened by cutting spending.

Private-sector leaders in Lagos, increasingly alarmed by the paralysis in policymaking, told Gen Abacha yesterday that the economy was "so sick that shock treatment is needed in the 1994 budget before economic recovery and growth can begin".

The businessmen outlined conditions which could halt capital flight and start to attract private investment: a balanced state budget, low inflation, a stable currency moving towards convertibility, fuel prices near international levels, tax cuts to stimulate savings, reduced bureaucracy, and agreement on a medium-term programme with the IMF leading to external debt relief.

Gen Abacha acknowledged mismanagement of the economy by previous military regimes but did not outline of his own prescription. The deadlock has led to postponement of a visit to Lagos by an IMF team, due to resume talks on the new programme.

Vietnamese leaders worried by corruption

By Iain Simpson in Hanoi

The Vietnamese government has admitted that a year-long campaign against corruption among state employees is having little impact and that corruption is costing the country tens of millions of dollars.

Mr Bui Thien Ngo, interior minister, told the National Assembly in Hanoi that measures to fight corruption had brought about no significant changes and the situation remained serious. He said efforts to curb smuggling were failing although more than 17,000 cases of smuggling have been uncovered so far this year.

Officials say goods smuggled in from China and Cambodia are damaging domestic industry and losing the government revenue. The fight against corruption and smuggling has been a recurring theme for the past year and Mr Vo Van Kiet, prime minister, has made curbing corruption among officials a personal crusade.

But Vietnamese and foreign business people in Hanoi and to an even greater extent in southern Ho Chi Minh City say corruption is endemic at all levels of government. They say they are regularly asked to make extra payments to get contracts signed and to assemble the huge stack of paperwork required to establish a business or a joint venture.

Appeals for more vigilance and more efforts to curb corruption are part of a political battle now being waged in Hanoi over the pace of economic reforms. The more conservative members of the assembly and Communist party officials say corruption and other social ills are a result of economic reforms.

Self-proclaimed president consolidates grip

France backs Bédie in Ivory Coast

By Leslie Crawford, recently in Abidjan

Mr Henri Konan Bédie, the self-proclaimed new president of the Ivory Coast, consolidated his grip on power yesterday after winning the endorsement of France and other diplomatic missions in the capital, Abidjan.

Mr Bédie, the speaker of parliament, declared himself president a few hours after the announcement of President Félix Houphouët-Boigny's death on Tuesday. Under the constitution, he is entitled to lead the nation until the end of the presidential term in 1995.

French President François Mitterrand addressed his message of condolence to Mr Bédie as "interim president", indicating that France rejected the rival claim to the presidency by Mr Alassane Ouattara, prime minister.

In the final weeks of Mr Houphouët-Boigny's life, the prime minister had tried to canvass support for a broad-based coalition government led by himself.

Mr Ouattara and Mr Bédie are bitter rivals in the ruling Democratic Party (PDCI). They belong to different tribes and different religions, but are probably less apart on economic policy issues than their rhetoric would suggest. Mr Bédie is a former finance minister while Mr Ouattara, a former director of the International Monetary Fund, had been the Ivory Coast's economic overlord since 1990.

Ambassadors in Abidjan, however, feared Mr Ouattara's plans would unleash a constitutional crisis at a time of great political and social uncertainty. They were afraid political infighting might provoke a military coup, and therefore threw their diplomatic weight behind Mr Bédie, the legal dauphin.

The Papal Nuncio and other ambassadors reinforced Mr Bédie's position yesterday by paying visits at his home, now guarded by gendarme commandos. The 800 French troops stationed by the airport remained in their barracks.

Mr Bédie's move will probably trigger a split in the PDCI. Mr Ouattara is expected to resign as prime minister, as he had said in the past that he would not serve under Mr Bédie.

HEARTBREAK IN WAR-TORN SOMALIA: two children fight over a bowl of rice during last year's famine. It was the failure to get aid through to the people who needed it most which prompted the US to send troops to the country AP

Lessons of a year in Somalia

Leslie Crawford on noble intentions and political realities

After a year of policy blunders and humiliating reversals by the United Nations, of cold-blooded killings and hostage trading, a more realistic, hard-nosed policy is taking shape towards Somalia.

The lesson the UN has learned there is that noble intentions are not in themselves enough. The humanitarian objective of feeding starving Somalis was admirable: but starvation was a symptom of a deeper malaise. Civil war had destroyed society and its institutions, and if the country was to recover its capacity to manage itself and avert further disaster, international intervention required a military and political framework that was never fully appreciated.

One year later the world is trying to extricate itself from a responsibility it decided it did not want. The UN has abandoned its peace-enforcing role and placed the responsibility of forging a political settlement firmly with Somalia's fractious clans vying for power in a society that has yet to rebuild its shattered institutions.

The diplomatic initiative has also shifted from the corridors of the UN to Somalia's neighbours in the Horn of Africa, which have vested interests in ending the conflict, but with few resources to spare. "The fighting could easily spread into our countries. The clan divisions in Somalia are reproduced in Ethiopia and Eritrea," says an Eritrean diplomat.

The omens from peace talks organised by President Meles Zenawi of Ethiopia this week are not good. General Mohamed Farah Aideed and Mr Ali Mahdi, Mogadishu's rival warlords, have so far refused to meet for face-to-face talks.

The overwhelming feeling in the US and elsewhere is that the international community has already fulfilled its moral duty to Somalia by ending the famine. The consensus is that the UN's humanitarian intervention in Somalia began to unravel when it widened its mission to include the forceful disarmament of warring militias as a forerunner to a political settlement. Some observers however would argue that it is precisely the failure to achieve this that undermined the mission.

The world is trying to extricate itself from a responsibility it does not want

Few could have predicted that the humanitarian mission to deliver food to starving millions would degenerate into an obsessive search-and-destroy operation against supporters of a single warlord.

The UN was ill-prepared from the start of its first peace-enforcing operation. The multinational force was riven with national rivalries and deeply resentful of the predominant role played by US troops outside the UN structure of command.

Orders were not obeyed. Military intelligence was abysmal. The disarmament of Mogadishu's warring factions was not conducted simultaneously, sowing suspicions among the Aideed camp that the UN aimed to eliminate them.

On the political front, the UN's timetable to have functioning local councils and a government of national reconciliation in place within 18 months proved hopelessly optimistic. Somalia has had no government since 1991. Before that it had a civil war, and before that a dictator.

Gen Aideed still denies he planned the ambush that killed 24 Pakistani peacekeepers in June – the event that triggered the escalation of violence in Mogadishu and culminated in the deaths of hundreds of Somalis and 18 US troops in a battle in October.

The UN military, under orders from the Security Council to detain Gen Aideed for the June ambush, became caught up in the very chain of retaliation and revenge that fuels clan rivalry in Somalia. UN bombs compounded the damage of the civil war. Helicopters gunned down the civilians who had been saved from the famine.

Caught in the blind hunt for Gen Aideed, the UN lost sight of its mandate, its impartiality and its authority to play a constructive role.

The events in Somalia have infected all aspects of peacekeeping. Gen Aideed's defiance probably encouraged Haiti's military rulers to defy the UN's would-be peacekeepers there last month.

It has made the Security Council more cautious about authorising new peacekeeping operations. Burundi has been the first victim. Despite appeals for protection, the UN has sent only an envoy to mediate between the government and paratroopers who killed Burundi's elected president in October. The failed coup unleashed a wave of ethnic killings still going on. More than 50,000 people are thought to have died.

In Mogadishu, UN troops have abandoned all attempts at maintaining law and order; their main aim now is to avoid more casualties. Bandits and armed gunmen roam the streets with impunity. Recruitment for UN military missions has become harder since the US announced it would withdraw its troops from Somalia by March 1994.

Many Somalis, including Ali Mahdi, the warlord who controls north Mogadishu, fear that Somalia will revert to bloodletting when the Americans leave. Few doubt the US pull-out will spell the effective end to the UN military operation in Somalia (Unosom).

Mr Boutros Boutros Ghali, the UN secretary-general, rejects the notion of a complete UN withdrawal. "The international community must not abandon Somalia in view of the incontrovertible desire of the Somali people for continued presence of Unosom in their country," he argued recently.

The reality, however, is that the world is disengaging and Somalia's travails are far from over.

Israeli unions consider national strike

By Julian Ozanne in Jerusalem

Israel's Histadrut labour movement was last night considering whether to go ahead with a nationwide public sector strike due to start today, after the government agreed to freeze the country's privatisation programme for up to four weeks pending further negotiations with unions.

The move came as a restructuring plan for the financially troubled Israel Aircraft Industries, Israel's largest employer, was agreed between management and workers which should release hundred of millions of dollars of government assistance in a rescue package.

Trade union leaders were divided about whether they should call off the strike involving up to 100,000 workers in government-owned companies including the electricity, telephone and water industries, state-controlled radio and television, postal and airport services.

Mr Yitzhak Raza, leader of the engineers' union, said the strike would go ahead. Other trade unionists said they would call it off if the government made a more clear and unequivocal statement suspending the privatisation drive.

The unions want greater involvement in privatisation plans and demanded that the government find jobs for workers fired as part of the sale of state-owned companies.

Yesterday a Tel Aviv court ruled that workers in the postal and airport authorities were forbidden to take part in the strike after a last-minute appeal was lodged by the two authorities.

Mr Avraham Shochat, finance minister, said he could not stop privatisation where it is already in process, such as at Bank Mizrachi, but was prepared to freeze privatisation for other companies by up to one month.

At least 11 government-owned companies including Israel Chemicals, Israel Shipyards and Bezek, the telephone company, are being prepared for at least partial privatisation within the next six months.

Officials at Israel Aircraft Industries, which last year reported a loss of $60m from a turnover of $1.6bn, said they expected an immediate injection of government finance following agreement on the restructuring plan.

Under the agreement the 17,000-strong work force is to be reduced by 2,900.

Half will accept early retirement and half will be made redundant.

The agreement also states that wages will be cut by 15 per cent and there will be no wage increases until the company is profitable.

London urged to reverse policy on HK

By Alexander Nicoll, Asia Editor

Sir Percy Cradock, Britain's former chief negotiator on Hong Kong, yesterday bitterly attacked the decision of Mr Chris Patten, the territory's governor, to proceed with electoral reform legislation without agreement from Beijing.

He told the House of Commons Foreign Affairs Committee in London that the breakdown of talks with Beijing would create a lasting confrontation. The situation was "a tragedy for Hong Kong," for which the policy of the British and Hong Kong governments since last year was largely responsible.

Sir Percy, former ambassador to Beijing and foreign affairs adviser to Mrs Margaret Thatcher as prime minister, urged London to reverse its "dangerous and reckless" policy. Mr Patten's approach "will do much more harm to Hong Kong than the alternative policy of co-operation with China on the best terms we can get."

Sir Percy said Britain had refused China's request for discussion of the proposals before Mr Patten unveiled them in October 1992.

The Foreign Office said in response Britain had made clear the proposals were intended for discussion with China.

Parliamentarians on the committee questioned Sir Percy's views. One suggested that acceptance of China's position would mean the "emasculation of real democracy," and would enable the Chinese government to say that this had been done with Britain's agreement.

Sir Percy, however, said present policy was putting at risk the increase in democracy in Hong Kong to which China had agreed. Reforms introduced in 1995 would be dismantled by China in 1997 and replaced in a "vicious backlash" with a government subservient to China.

He rejected as an "extraordinary and ignorant distortion" the suggestion that British policy on Hong Kong had been directed by Sino-centric officials at the Foreign Office such as himself.

Chinese and British officials yesterday held the second day of talks in the Joint Liaison Group charged with details of the 1997 handover to China. The meeting ends today.

NEWS IN BRIEF

Japan machine tool orders fall to a record low

Japanese machine tool orders in October fell 22.2 per cent from a year earlier and were the lowest for a single month since the Japan Machine Tool Builders' Association began collecting sales statistics a decade ago, writes Robert Thomson in Tokyo.

The sharp fall indicates the depth of capital spending cuts among Japanese manufacturers, who have deferred or cancelled expansion plans and are delaying new equipment purchases as part of cost-cutting programmes.

Domestic orders slipped 29.2 per cent from a year earlier, while exports were 10.7 per cent lower.

Uproar in Indian parliament

Both houses of the Indian parliament were adjourned in uproar yesterday as angry members of the Bharatiya Janata party (BJP) demanded the release of Mr L.K.Advani, the party president, and other leaders arrested in Lucknow on Tuesday, writes Shiraz Sidhva in New Delhi.

Eight leaders of the BJP, India's largest opposition party, were remanded in custody until December 20 after they refused to file personal bonds before a special magistrate from the government's Central Bureau of Investigation which is investigating the demolition of a mosque in nearby Ayodhya in December 1992.

Rate rise likely, warns NZ bank

The New Zealand Reserve Bank warned yesterday that some increase in exchange and interest rates may be needed late next year due to strong growth in demand. However it said it was "currently comfortable" with monetary conditions, writes Terry Hall in Wellington.

In its six-monthly statement, the central bank said its latest forecasts indicated that inflation was likely to dip "somewhat" over the next year, before rising through 1995 and early 1996.

UN chief to visit North Korea

Mr Boutros Boutros Ghali, United Nations secretary general, will visit North Korea later this month when the question of opening the country's suspected nuclear sites to inspection will be raised, writes Michael Littlejohns in New York.

A UN official emphasised last night, however, that this was not the purpose of the visit, which was at Pyongyang's invitation. Efforts to obtain North Korean compliance with the terms of the nuclear Non-Proliferation Treaty are being made by the International Atomic Energy Agency and the US.

New post for Winnie Mandela

Mrs Winnie Mandela made a triumphant return to the top level of the African National Congress yesterday when the ANC Women's League elected her as its president, Reuter reports from Johannesburg.

Mrs Mandela, the estranged wife of ANC President Nelson Mandela, in May 1991 was sentenced to six years in jail for kidnapping and assault but an appeal court later reduced the sentence to a fine and a suspended jail term.

Kazakhstan parliament dissolved

Kazakhstan's communist-era parliament voted yesterday to dissolve itself and call early elections for a modern professional legislature, Reuter reports from Alma Ata.

The parliament, elected in 1989, was required to meet only twice a year. Elections to a full-time legislature will be held on March 7, three months early.

UK trio held in Iraq may be free by end of week

By James Whittington in Amman

Sir Edward Heath, the former UK prime minister, travelled to Baghded yesterday to try to secure the release of three Britons jailed in Iraq, raising hopes that they may be freed by the end of the week.

The prisoners, Mr Michael Wainwright, 42, Mr Paul Ride, 33, and Mr Simon Dunn, 23, are being held in Abu Ghraib Prison near Baghdad, where they are serving sentences of 10, seven and eight years respectively.

A British diplomat in Amman said "there was a good chance" the three might be released by Friday. Mr Wainwright and Mr Ride have been in jail for over a year; Mr Dunn was arrested six months ago. All were charged with entering Iraq illegally.

Sir Edward, who has British government backing in the mission, was asked to travel to Baghdad on behalf of the prisoners' families. In October 1990, three months before the Gulf War, he won the release of western hostages held at strategic sites in Iraq.

British officials said his current trip was discussed by Sir David Hannay, Britain's envoy to the UN, and Mr Tariq Aziz, Iraq's deputy prime minister, in New York last month. Iraq has until now linked the prisoners' release with Britain's unfreezing of Iraqi assets in the UK, but London has refused to comply. Last month Baghdad freed Mr Kenneth Beaty, 45, an American. Five westerners, including the three Britons, remain in Iraqi jails.

Paris rules out CFA devaluation

By David Buchan in Paris

France has ruled out any devaluation of the CFA franc of its former African colonies against the French currency, despite World Bank advice that a change in the 1948 parity is necessary to help African exports.

Mr Michel Roussin, aid minister, told the Senate there was no question of devaluing the CFA franc because France was "very attached to the franc zone". Under this system, some 14 French-speaking countries in central and west Africe share a common currency, whose parity has stayed at FFr0.02 for the past 45 years, despite the rise in the French currency's value.

French officials acknowledge the problem this poses for some CFA countries' exports. But they say that because all 14 countries cannot agree on a single devaluation rate, there will be none. Paris has told CFA countries its annual FFr4bn aid (as distinct from development projects) will end after this month unless they sign IMF adjustment pacts.

Briton is shot dead in Algeria

Gunmen have shot dead a Briton at a petrol station in western Algeria, the fourth foreigner killed since a militant Islamic group's deadline ordering all foreigners to leave expired last week, Reuter reports from Algiers.

Mr Malcolm Vincent, 41, a oil industry computer technician, was filling his tank when two men tried to steal his car, shooting him when he resisted, the official news agency APS said. Mr Vincent, who worked for Pullman Kellogg, a contractor to the state oil group Sonatrach, was killed hours after a 67-year-old Frenchman was found shot dead near the town of Blida.

Eleven foreigners have been killed in Algeria since September 21. Four have died since the expiry of the November 30 deadline from the fundamentalist Armed Islamic Group. No one has owned up to the last four killings; an Algerian official said he believed the attacks were the work of independent groups.

In the past three months, foreigners have become caught up in political violence which has claimed many lives.

Mahathir 'ready to defuse quarrel with Australia'

By Nikki Tait in Sydney and Kieran Cooke in Kuala Lumpur

Malaysia's premier, Dr Mahathir Mohamad, has hinted he is ready to defuse a row with Australia that has threatened diplomatic and trade links between the two countries.

This follows a further attempt by Mr Paul Keating, Australian prime minister, to ease tensions, saying the Australian government wanted to "work in harmony" with its Malaysian counterpart.

But Mr Keating did not use the opportunity provided by a lecture on Australia-Asia relations to extend his limited apology to Dr Mahathir. Instead, he stressed that his description of Dr Mahathir as "recalcitrant" because of the Malaysian leader's non-appearance at the recent Asia-Pacific Economic Co-operation summit in Seattle was not intended to cause offence. Mr Keating reiterated his regret that offence had been taken.

Yesterday Dr Mahathir said he could accept Mr Keating's statement of regret over the remark but said it was up to the Malayaian cabinet to decide what action to take against Australia when it meets on Saturday.

Some Malaysian ministers have called for a downgrading of diplomatic links and have said business contacts should be curtailed.

Mr Gareth Evans, the Australian foreign minister, conceded that the affair had already caused commercial damage and could have more serious consequences.

● Malaysia's economy continues to expand strongly, with GDP growing 8.1 per cent in the third quarter. In the first nine months of 1993 Malaysia's economy grew 8.7 per cent.

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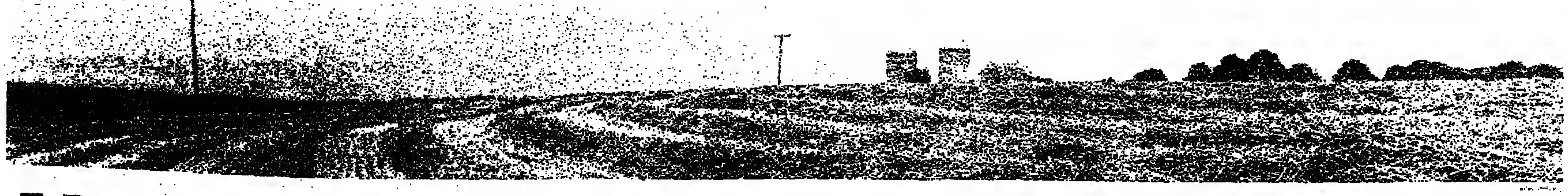


BRIBERY AND BULLYING WON'T WORK THIS TIME

WILL A MAD RUSH TO A FALSE DEADLINE LEAD TO A GATT FAILURE IN CONGRESS?

With NAFTA, we learned what happens when a poorly crafted trade agreement goes before the U.S. Congress. It can only be saved by presidential "bribery," under-the-table deals, corporate muscle, and desperate concessions from smaller countries. These tactics worked (just barely) with NAFTA. They will not work with GATT.

The NAFTA experience left the American public disgusted at the process. This time, on GATT, only a comprehensive, good GATT will get through Congress. (As for last-minute concessions by other countries to get congressional votes, the EU and Japan are not as susceptible to pressure as Mexico).

Another problem: The vote on GATT will come at the same time that Mr. Clinton's Health Program is debated. That is the President's number one priority; it is what he was elected for. If there are to be any "handouts," the Health Program is likely to get them.

So here is the message: A mad rush to an artificial deadline of December 15 will not produce a GATT that can pass the U.S. Congress. Here are six major factors that still must be addressed before GATT goes to Congress.

1. No Multilateral Trading Organization (MTO)

President Bush never gained congressional support for this idea, and President Clinton is doing no better. From the political right, left and center, groups of House and Senate members have publicly opposed the MTO as a grave threat to national sovereignty and democratic decision making.

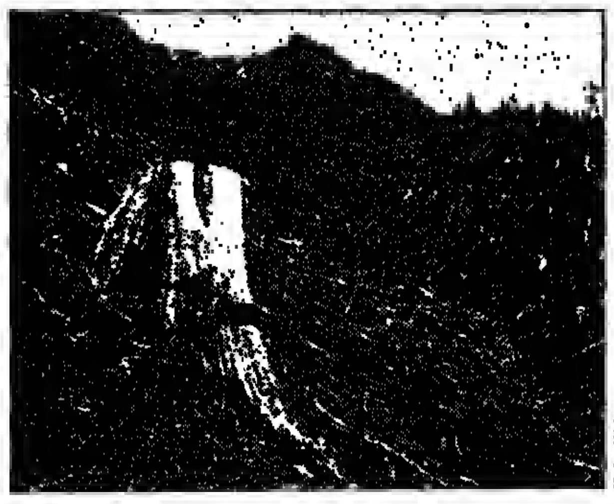
American environmental, consumer, industry and labor groups insist on the right to enforce U.S. trade laws using trade sanctions. *These are no-compromise positions.* The MTO clearly eliminates such rights, though the Clinton administration may try to argue otherwise.

The MTO would also increase the number of challenges to existing U.S. laws as "trade barriers." Here's how some members of Congress put it in a letter last week to President Clinton: "We consider it inappropriate to empower international trade panels...to compel the U.S. Congress and state legislators either to change domestic laws that such panels find inconsistent with GATT rules or to face economic penalties." If the final GATT Agreement includes the MTO, there will be a giant fight in Congress.

2. Unified Environmental Opposition

The split among environmentalists on NAFTA will not be repeated on GATT. One major NAFTA supporter, the National Wildlife Federation, has stated that any GATT that doesn't have at least the environmental protections of NAFTA "will be dead on arrival." A broad array of environmentalists confirmed that position in a letter to Mickey Kantor last week.

Environmentalists worry that GATT will undermine existing green laws, such as happened in 1991 to a very popular dolphin protection law. This caused a huge outcry among the public and in Congress. Sixty senators and 100 representatives demanded changes in GATT, but they were ignored. Without those environmental protections, GATT will have a hard time in Congress.



3. Industrial Opposition to the Dunkel Text

In the case of NAFTA, the Clinton administration relied on a unified business community for money, public pressure and support. No such unity exists on the current GATT proposals, the so-called Dunkel Text.

The National Association of Manufacturers and the U.S. Chamber of Commerce, as well as representatives from the semiconductor, pharmaceutical, steel, motion picture and other industries have all criticized the Dunkel Text and announced they would not support it without major changes.

"A speedy conclusion [to the Uruguay Round] should not be achieved at the expense of substance.... The President must negotiate a good agreement," said the U.S. Chamber of Commerce in congressional testimony.

Here are some of the changes that U.S. industries are seeking:

- Major revisions to the dumping provisions.
- Two-tiered market access for financial services like banking.
- A major rewrite of the MTO proposal to protect existing trade laws.
- Elimination of the maritime and tax provisions from the services deal.
- Broad access of the U.S. entertainment industry to the European market.
- Fifteen year phase-in for new textile provisions (promised by Clinton in exchange for NAFTA votes).

If these changes are not made, many U.S. industries will oppose or sit-out the Congressional battle over GATT, and it will fail.

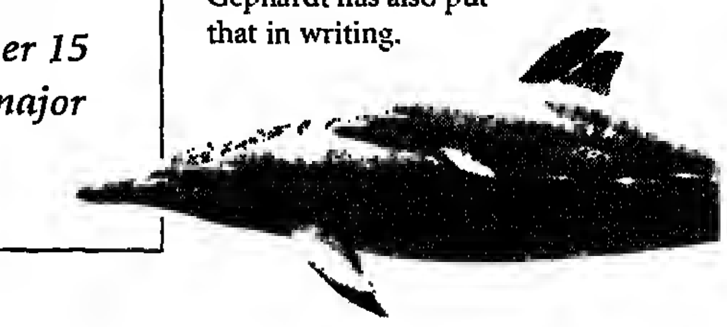
4. Opposition to GATT Food "Safety" Standards

President Bush ignored the opposition of U.S. consumer groups and of leading activist Ralph Nader to the proposed food "safety" standards under GATT. Bush also ignored demands to open up the GATT decision-making process to public participation and accountability. Such unsolved problems have now been inherited by President Clinton, who has not resolved them. He blames other countries for the failure to end GATT's secrecy and the refusal to protect food safety. But if food protections are left out of the Uruguay Round, then we can expect massive public opposition. *The Wall Street Journal* argued that consumer protection concerns about trade challenges against the U.S. laws would "resonate even more loudly with GATT—an obscure but powerful trade agency tucked away in Geneva and run by bureaucrats unknown in the U.S."

5. Opposition by America's Family Farmers

French and Japanese farmers are not alone in their opposition to the Uruguay Round of GATT. Many U.S. family-farm groups and commodity organizations find major elements of the Dunkel Text and the Blair House Accords unacceptable. American and European family farmers have shown mutual support on this issue.

These family-farm groups told President Clinton of their opposition to the three main elements of the Dunkel Text tariffication, decoupling, and the attempt to lower food safety standards through "harmonization." The family-farm opposition is shared by Congress, where sixty members of the U.S. Senate have vowed to oppose the Dunkel Text of GATT if it threatens Section 22 of the U.S. Farm Bill. Majority Leader Gephardt has also put that in writing.



6. Inclusion of Labor Rights

When Congress granted President Clinton the authority to negotiate the Uruguay Round, it specifically required that workers' rights provisions be included in any final agreement. Yet the Uruguay Round continues to ignore them. The national NAFTA debate gave popular support to labor rights and the trade connection. *The Wall Street Journal* described the legacy of NAFTA: "It gave respectability to the notion that something is fundamentally unfair about trading with poor nations whose labor costs undercut those in the U.S." *That* sentiment forced President Clinton to negotiate his side agreements on labor in NAFTA. Not even a pretense of such negotiation is being made in GATT.

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These are only a few of the many problems still to be solved in GATT. Unless negotiators take the time to work them out in a serious manner, the U.S. Congress will be under enormous public and industry pressure to say "no deal is better than a bad deal." After seven years of work, that would be a tragic ending.

The world needs a good GATT deal that fixes the key problems in world trade: export dumping of agricultural products, illegal transshipment, hidden trade barriers, environmental damage from trade, and others.

Some argue that negotiators must finish by December 15, or the world will come to an end. This is nonsense. Since the 1970s, every time a U.S. president has requested "fast track" authority or its extension, Congress has said yes. Many congressional leaders have offered support for further Uruguay Round "fast track" authority to fix the GATT problem. So the December 15 deadline is phony. It's a negotiating tactic, nothing more. Please don't be fooled.

The answer to the dilemma is this: Let's get the agreement right the first time. It's not worth wasting years of effort to rush toward a false deadline that can only produce a deal that will fail in Congress. Thank you.

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Hopes rise for pact on aircraft subsidies

By Frances Williams in Geneva

Trade officials in Geneva yesterday expressed optimism that US-European Union differences over subsidies for civil aircraft could be resolved before the December 15 deadline for concluding the Uruguay Round of trade talks.

Following the failure of Mr Mickey Kantor, US trade representative, and Sir Leon Brittan, his EU counterpart, to settle the issue in Brussels earlier this week, the negotiations have been handed back to Gatt's civil aircraft committee. This committee is trying to "multilateralise" last year's US-EU bilateral deal on state support for the European Airbus.

"There is a deal there, I'm convinced of that, and with the political will, it can be done now," said Mr Mikael Lindström, the committee's Swedish chairman, who sees his role as an independent and neutral arbiter.

Mr Kantor and Sir Leon said on Tuesday that they came close to agreement in Brussels, and officials confirmed yesterday that neither side regards the issue as a "round-breaker".

However, the EU in particular is keen to wrap up a revised Gatt code on civil aircraft which would provide more flexibility for aircraft subsidies than the general subsidies agreement proposed in the Uruguay Round talks.

In an effort to break the deadlock, Mr Lindström last month produced a revised aircraft code based on a modified version of the general subsidies accord, which all sides have accepted as a platform for negotiation. After discussions yesterday with US and EU negotiators, Mr Lindström plans to circulate a revised text later this week.

The main sticking points between the US and EU are: the level of aircraft subsidies above which there is a presumption of unfair trading practices; which types of subsidy should be subject to ceilings; whether subsidies subject to ceilings should be protected from challenge by competitors; and the EU's demand that past subsidies be exempted from anti-subsidy suits.

Under the bilateral US-EU agreement, the EU agreed to cap assistance to the four-nation Airbus consortium at 33 per cent of development spending, but this applies only to large civil aircraft and to the EU's royalty-based subsidy system.

The Gatt civil aircraft code, which has 22 signatories, applies to all aircraft and components, and to all forms of subsidies.

In the draft general subsidies accord, the subsidy threshold for presumption of "serious prejudice" is 5 per cent of sales, a figure the EU wants raised.

Environment moves up the agenda

By David Dodwell, World Trade Editor, in Geneva

Trade policymakers this week bowed to environmentalist demands for the Uruguay Round to address directly potential clashes between environmental and free trade priorities.

A confidential draft proposal for a work programma to identify links between trade measures and environmental priorities, and to recommend how multilateral trade rules should be modified, has been tabled by European Union, Indian and Brazilian negotiators. Recommendations would be adopted at a ministerial conference in April next year, convened to ratify the Uruguay Round agreement.

The proposal marks a significant shift for Gatt negotiators, who had insisted environmental issues be tackled once the Uruguay Round deal was completed. It falls short of demands from the US, Switzerland and some Nordic countries for the trade deal, due to be completed next week, to include a firm commitment to setting up a Gatt committee on trade and environment.

The US yesterday remainad firmly opposed to the compromise, but seemed isolated. Officials acknowledged developing-country worries about industrial-country environmental policies being used as trade weapons.

US calls for environmental lobby groups to be able to submit briefs in trade disputes, or observa or comment in dispute panels, continue to be resisted. Most Gatt members argue governments ahould be the only bodies with direct access to Gatt disputes.

As a compromise, Gatt suggests non-confidential summaries of submissions to Gatt panels be made available to lobbyists, with the panels able to appoint expert groups for technical advice. Among US environmental lobbyists arriving in Geneva, Mr Jim Marston of the Environmental Defence Fund said: "The question is, what assurance will we have that these recommendations will be incorporated into Gatt. We are trying to be flexible, but need more hard assurances".

The confidential draft, approved on Tuesday by all developing countries involved, notes: "There should not be any policy contradiction between upholding and safeguarding an open, non-discriminatory and equitable multilateral trading system, and acting for the protection of the environment and the promotion of sustainable development".

While calling for closer co-ordination between trade and environmental policies, the proposal warns against exceeding the competence of Gatt, which is limited to trade policies and "those trade-related aspects of environment policies which may result in significant trade effects".

US demands have caused consternation

Struggle on dumping rules nears climax

By David Dodwell, World Trade Editor, in Geneva

The Uruguay Round dispute over US demands to dilute the force of multilateral restraints on anti-dumping rules is expected to reach a climax tomorrow. Trade officials will try to rank the issues and arrange confidential meetings between the US and the 14 countries most exercised by the proposed changes.

The US aroused consternation last week among trade negotiators in Geneva by tabling a 25-page document detailing 11 proposed amendments to the Round's anti-dumping text. After signals earlier this week that the US and the European Union had settled long-standing disagreements on market access, the row over anti-dumping has emerged as one of the last and most testing issues blocking a final Uruguay Round deal.

Mr Jeff Garten, the newly appointed US commerce department undersecretary responsible for anti-dumping negotiations, returns to Geneva today aware that intermediaries in the General Agreement on Tariffs and Trade face a Saturday deadline to find a settlement. Failure beyond then could force Gatt officials to draft their own compromise, potentially angering all concerned.

Mr Garten currently argues that all 11 amendments must be accommodated in the Uruguay Round text. Other negotiators are reluctantly bowing to the necessity of accommodating at least a few – perhaps as many as five or six. The amendments range from efforts to ensure easy defence against "dumped" goods that are exported through third countries, to a bid for US trade unions to have the power to mount dumping actions.

One calls for abandonment of a current proposal to force a "sunset" on dumping actions after they have been in force for five years. Trading partners are concerned that over 10 per cent of the US's 300 outstanding dumping duties have been in place for more than 20 years.

One, against portland cement from the Dominican Republic, this year celebrates its 30th anniversary, while one duty on Canadian steel jacks has been in place for 27 years.

All 11 proposals are seen as heresy by many US trading partners, who view most anti-dumping actions as specious, exploited by powerful protectionist lobbies as a preferred line of defence against foreign competitors.

Many regard the amendments as the work of US lawyers, who are the principal beneficiaries of the expensive anti-dumping suits that have proliferated in the US and spread to developing countries in recent years.

Farmers demonstrate in Tokyo yesterday against any lifting of a ban on rice imports Reuter

Aid group plea for Uruguay Round losers

By Frances Williams in Geneva

Developing countries which stand to lose from a Uruguay Round trade agreement, among them many impoverished African nations, should be compensated with extra aid, trade preferences and debt relief, according to Christian Aid, a church-sponsored aid agency.

Mr Peter Madden, the charity's trade policy adviser, yesterday called for negotiation of side agreements to the Round accord which would cushion the potential losses for some developing countries, mostly poor food importers.

"It is not right that the losers – overwhelmingly the poorest countries of the world – should bear the costs of the agreement which brings so many benefits to others," he said at the launch of Winners and Losers, a report detailing the Round's impact on developing countries.

A recent study by the World Bank and the Organisation for Economic Co-operation and Development put the overall income gain from the Round at an annual $213bn by 2002, but this conceals a loss for Africa of $2.6bn. Other losers include Indonesia, some Mediterranean states and Caribbean nations.

Christian Aid notes that "unequivocal losers" fall into four overlapping categories:

- African, Caribbean and Pacific nations which get trade preferences under the European Union'a Lomé convention. The value of these preferences will fall as tariffs are lowered to all, squeezing access to the EU market.
- Net food-importers who will face higher prices for farm products, at least in the short term, as EU and US agricultural export subsidies are cut. Over 100 of the world's 132 developing countries are net food importers, reflecting the extent to which huge farm subsidies in the west have put Third World farmers out of business.
- Exporters of cocoa and coffee, prices of which are predicted to fall.
- Countries lacking the capital, knowledge and technology to exploit new trading opportunities.

Mr Madden, the report's co-author, said the 116 nations taking part in the Round should negotiate compensating side agreements before the accord is formally signed next April. These should cover compensation for lost markets, help to meet higher food prices, assistance with the costs of complying with new fair trade rules, and debt relief.

The Uruguay Round package includes a draft ministerial declaration on the problems of net food importers, which refers to the possibility of additional food aid and IMF and World Bank loans for countries in difficulties. But Mr Madden said the language was vague and more specific commitments were needed.

Six international companies invited to tender

Israel switches to natural gas

By Julian Ozanne in Jerusalem

Israel has invited six international energy construction companies to bid for contracts to build natural gas-fired electricity generation facilities.

The move is part of Israel's strategy to convert power generation to natural gas once supply contracts are signed with Qatar and Egypt. Both Arah states have officially denied Israeli claims that advanced agreements have been drawn up, but Mr Moshe Shahal, Israel's energy minister, said again this week the Qatar deal would he signed before the end of the month.

Tha energy ministry said yesterday the six companies – SRI of the US, Bateman of South Africa, Arthur D Little and British Gas from the UK, Sofregas of France and Tractebel from Belgium – have also been asked to bid on the transmission of natural gas to Israel.

The companies are required to consider three separate potential supply routes – transportation of liquid natural gas by ship either to a Mediterranean port or to Eilat on the Red Sea. The third option is to hring natural gas by pipeline from Egypt. The energy ministry said the hids should be completed within a month.

OECD Export Credit Rates

THE Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially-supported export credits for December 15 to January 14, 1994 [November 15 to December 14 in brackets]

D-Mark	6.29 (6.46)
Ecu	6.83 (6.98)
French franc	6.73 (6.77)
Guilder	
up to 5 years	6.25 (6.40)
5 to 8.5 years	6.50 (6.65)
more than 8.5 years	7.20 (7.15)
Italian lira	8.94 (8.52)
Yen	3.60 (3.80)
Peseta	9.34 (9.51)
Sterling	7.21 (7.26)
Swiss franc	5.32 (5.34)
US dollar for credits	
up to 5 years	5.50 (5.18)
5 to 8.5 years	6.06 (5.71)
more than 8.5 years	6.45 (6.05)

These rates are published monthly by the Financial Times, normally in the middle of the month.

A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.

SDR-based rates of interest are the same for all currencies but must be used only for the OECD-defined poor countries.

The SDR-based rate was most recently changed on July 15 to 6.65 per cent. It will again be subject to change on January 15 1994.

Venezuela heading away from trade liberalisation

By Stephen Fidler in Caracas

Mr Rafael Caldera, victor in Venezuela's presidential election on Sunday, is expected to consider measures to revise the free trade policy of the government of former President Carlos Andrés Pérez.

Economic advisers to Mr Caldera indicated this week they were examining ways of overturning aspects of the trade liberalisation, in order to encourage development of Venezuelan industry.

One adviser, Mr Rafael Kries, was quoted yesterday in the Economia Hoy newspaper as describing the Pérez trade policy as "unconditional and indiscriminate". A return to protection would not be indiscriminate, he said, and there were "para-tariff mechanisms" that Venezuela could use to help industry.

Mr Caldera said this week he was sympathetic to hemispheric trade integration, and that the North American Free Trade Agreement between the US, Canada and Mexico was a "very interesting idea". Venezuela has been mentioned by US officials as a possible Nafta candidate.

But Mr Caldera – scheduled to begin his five-year term in February – also said: "I doubt very much whether we'll arrive at the point that we'll be able to join Nafta in the next five years."

Businessmen said this week Venezuela's obligations under Gatt and its economic integration agreements under the Andean Pact and the Group of Three – which hrings Venezuela together with Colombia and Mexico – would limit the new government's freedom of action to increase protectionism. The Andean Pact has agreed on a four-level common external tariff with a maximum of 20 per cent.

Mr Pedro Vallenilla, president of the Venezuelan paper producer, Venepal, which forms part of the Mendoza group of companies, said the Andean pact meant the common external tariff "cannot be changed unilaterally by Venezuela".

The Andean Pact groups Venezuela with Colombia, Ecuador, Bolivia and Peru, but Peru'a membership has been temporarily suspended. There have been concerns Mr Caldera's strong nationalist streak could increase tensions with Colombia over the disputed Gulf of Venezuela.

Caldera: seeks to help industry

The interim government of Mr Ramon Velasquez has already implemented several measures to protect agriculture, and there is pressure for protection from other industries – notably textiles and shoes.

EU will need telecoms watchdog, says top official

By Andrew Adonis

A European telecommunications regulator will be needed to underpin the liberalisation of the European Union's telecoms market, Mr Michel Carpentier, the head of the EU's telecommunications directorate, warned yesterday.

Referring to the 1998 deadline for the introduction of competition for "voice" services over the EU's public networks, he stressed that "mechanisms to handle problems of a Community-wide nature will be needed."

The Commission was anxious to respect the principle of subsidiarity, leaving as much as possible to national governments and regulators, said Mr Carpentier, addressing the FT's world telecommunications conference.

However, "issues such as the resolution of inter-connection disputes between telecommunications organisations in different member states and the mutual recognition of licences cannot by their nature be handled by one member state or one regulator acting alone."

The issue of mutual recognition of licences is likely to be particularly difficult to resolve. US regional Bell companies are licensed to operate cable networks in the UK and AT&T has a licence application pending in London.

Mr Carpentier said there was a clear "infrastructure gap" for corporate communications on the continent, which would "rapidly close if the possibility for alternative infrastructure existed."

He said most EU states had "little enthusiasm" for an early introduction of competition in the provision of telecommunications infrastructure, a policy strongly advocated by the UK government.

Mr Carpentier described the alliance between France Télécom and Deutsche Telekom, announced this week, as an "unsurprising" reaction to deregulation and the growth of an international market for telecommunications outsourcing.

Mr James Quello, a senior commissioner at the US Federal Communications Commission, said the rise of "multimedia" alliances between telecommunications, cable, entertainment and computing companies posed stark challenges to regulatory authorities.

"At a time of rapidly changing technology and markets, the regulator should not handicap service provision by establishing artificially restrictive parameters."

Mr Michael Gale, managing director of Hong Kong Telecom, estimated the Asia-Pacific region would need about 200m new phone lines in the next decade – equivalent to nearly 10 BT networks.

He said they would be paid for partly from supplier credits and own resources, but would rely heavily on equity investment by western operators.

Enron in agreement with India on power station

By R C Murthy in Bombay and Stefan Wagstyl in New Delhi

Enron Power of the US has reached agreement with the Indian national and provincial governments on a controversial Rs29bn (£622m) power station to be built near Bombay.

Enron and the Maharashtra state government in western India yesterday signed an agreement under which the Maharashtra state electricity board will buy power from Enron's 695MW gas-fired plant, which will be constructed at Dhabol on the coast.

The successful completion of talks with Enron will come as a relief to the Indian authorities in their quest to attract foreign investment into the power sector and into India generally.

The project has attracted much attention; a failure in negotiations might have discouraged other potential investors.

Dhabol is the second big power station project for which a power purchase agreement has been signed after the government last year invited private investors into the state-dominated generating industry to help ease India's chronic electricity shortages.

National Power, the UK generator, and the UK-based Hinduja trading family last month signed a similar pact for a 1,000MW plant with the authorities in the southern state of Andhra Pradesh.

In each case, the power purchase agreements are being supported by payment guarantees from the state and, indirectly, from the central government, a key condition sought by foreign investors who have otherwise been loth to invest in schemes involving the heavily indebted state electricity distribution boards.

Enron originally envisaged a much larger scheme, a 2,000MW plant fuelled by liquid natural gas imported from Qatar.

The company impressed the Indian authorities with its determination to press ahead rapidly with the project, pursuing its negotiations very vigorously.

But the project ran into criticism from, among others, the World Bank, which was concerned about the cost, the reliance on imported fuel, and about doubts whether Maharashtra, which is relatively well served with power plants, really needed such a large new station.

Enron now plans to build the giant plant in two stages: a 695MW plant to be completed by 1997, and a 1,320MW extension, which has yet to be approved by the state electricity board, and is planned to be finished by late 1998.

Colosio plays up role of Mexican democrat

By Damian Fraser in Mexico City

Mr Luis Donaldo Colosio, the presidential candidate of Mexico's ruling party, will invite independent observers to evaluate next year's election, allow external auditing of the country's electoral roll and will periodically publish his campaign finances.

The proposals form the central part of a speech due to be delivered last night, in which Mr Colosio was to accept the presidential nomination from the ruling Institutional Revolutionary party. In the speech, Mr Colosio promises a "democratic transformation" of Mexico.

The overwhelming favourite to win next year's election, he also outlined his economic and social programme for the next six years should he be elected president. While underlining his commitment to low inflation and sound public finances, be described a more activist industrial and social policy than that pursued by President Salinas.

The PRI has been in power for more than six decades, and Mr Colosio and many of the electoral victories, including that which brought Mr Salinas to power, have been marred by charges of fraud and ballot-rigging.

Mr Colosio's democratic proposals seem part of campaign to assure the puhlic his party can win cleanly.He promised that "the PRI does not need nor want a single vote outside the margin of the law".

In response to those who attack the excessive power of the Mexican president, the speech calls for a reform of Maxico's government which would strengthen Congress, improve the system of justice, and expand human rights.

Reducing poverty would be his government's top priority. "Tha most important commitment of his government would be to better the lot of those who have least," he said.

WOULD BE PRESIDENT: Colosio seeking international approval

Rogue brokers targeted in US

Patrick Harverson on the security industry's need to enforce its rules

Although it has heen enjoying three consecutive years of record-breaking profits, the US securities industry thinks it may be developing an image problem.

Last week, critical comments about sales practices of unscrupnlous stockhrokers by a senior Securities and Exchange Commission official touched off a vigorous dehate about whether the industry needs to do more to police its hroking force and weed out those who break the rules.

Mr Carter Beese, an SEC commissioner, set the hall rolling last Thursday when he told the Securities Industry Association's annual conference in Florida that if the industry did not do a better job of tackling what he called "rogue hrokers", Congress might decide to draw up tough new laws to discipline hrokers and their firms.

Mr Beese was referring to those who hoost commission income by selling securities and other products to clients who do not need them, and hy recommending unnecessary huying and selling of stocks within clients' portfolios: the practice of "cburning".

Mr Artbur Levitt, recently appointed cbairman of tbe SEC, told representatives last week that tackling unscrupulous hrokers and punishing executives who fail to supervise them properly would be a priority of his term at the ageocy.

Mr John Dingell, a powerful member of the House of Representatives, has called on the industry to introduce a "three strikes and you're out" policy under which tbose who have faced multiple customer complaints would be permanently barred from the business.

Mr Dingell's proposal is a response to the industry's poor record at removing rogue hrokers. Althougb those who abuse the rules and their clients are routinely fired by their employers, they often turn up at another firm.

This is because most firms get rid of trouhlesome employees without a formal internal review for fraud or violation of industry rules. Managements fear that if they take official action against hrokers, they will become enmeshed in long and expensive legal battles.

Although the debate about brokers' behaviour bas suddenly intensified, there is no evidence that industry standards are slipping. According to the National Association of Securities Dealers, until the end of October less than 1 per cent of the country's 463,000 registered hrokers were the subject of a customer complaint to the NASD, and only 0.1 per cent were either suspended or permanently harred because of their actions.

So why all the fuss now? First, recent publicity surrounding a few cases involving unscrupulous hrokers bas heightened the public's concern ahout standards of integrity. In particular, the case of Prudential Securities, which will have to pay hundreds of millions of dollars in compensation to thousands of investors who in the 1980s were sold limited partnersbips that quickly went sour, has attracted a lot of attention.

Second, while rogue brokers have been been around for centuries, the flood of new money over the past two years into stocks and bonds has raised fears that a few may be exploiting first-time investors with little knowledge or experience of investing.

Although the facts support the securities firms' view that only a handful of hrokers have been breaking the rules, any service industry is sensitive to tbe issue of declining standards.

Brazil's 'if' plan to beat inflation

Angus Foster on a pledge reminiscent of an alcoholic's promise to quit

As with alcoholics who keep promising to quit, Brazil's latest pledge to kick its inflationary habit was greeted with equanimity hy a country which has seen six previous attempts fail in the last seven years.

Within hours of finance minister Mr Fernando Henrique Cardoso's announcement of his fiscal stabilisation programme, it became known as the se plan because of the number of occurences of the Portuguese word for "if".

Despite initial scepticism, however, the programme has won support from the government's coalition partners and a cautious hacking from husiness groups. These and other leaders agree the package is the last chance to tackle inflation, running at more than 2,000 per cent a year, before the government's term runs out.

They also agree that if the package fails, with presidential and congressional elections in November, there is a serious threat of hyper-inflation in the second half of next year.

Mr Cardoso's package involves three phases to be implemented over several months. The final stage, introducing a new currency, may not be ready before the government's term ends.

The most important element, and a pre-requisite for the others, is a set of fiscal reforms designed to balance next year's budget, otherwise likely to show a deficit of $22.2bn. This would he equivalent to 20 per cent of projected expenditure. In the past the deficit has been highly inflationary because the government has financed it hy issuing short-term securities at high interest rates.

The hudget and related measures need approval from congress, whicb is expected to reach a decision before the new year. If it is approved, the government will introduce a new index which, instead of measuring hislorical inflation as do current indexes, would be adjusted daily hy the central bank in line with the devaluation of the currency.

Wages and many important prices in Brazil are linked to the inflation indices. By introducing this new index, economists say, the government would be ahle to influence inflation by slowing tbe depreciation of the currency througb foreign exchange market intervention using foreign reserves that currently exceed $20bn.

In time, the index could he linked to the US dollar or a basket of currencies. At this point, the government would have de facto ahandoned indexation, since the currency would by definition not depreciate. Furthermore, the index would become the unit of exchange and would replace the existing currency, the cruzeiro real.

"You would have a very sharp fall in inflation and, with tbe fundamentals in place, this fall will be sustainable," says Mr Winston Fritsch, economic policy secretary.

The package has some important advantages over its predecessors. For one, it concentrates on the hudget deficit instead of relying on "tricks", such as price freezes, which have worked for only a few months.

A constitutional revision under way in congress may also belp. Constitutional changes, some of which will not come into effect until 1995, would allow the federal government to regain control of spending which has been devolved to other levels of government in recent years. With more control over, the allocation of its resources, the government would have less excuse to run deficits.

Mr Roberto Macedo, a former economic policy secretary, says Brazil is still not ready to make the cuts and sacrifices Mr Cardoso is seeking. "He's going in the right direction, hut the prohlem, as always, is in the political dimension."

Opposition is likely to come from congress on two fronts. A proposed 5 per cent increase in federal taxes will he unpopular. More important, Mr Cardoso plans to divert 15 per cent of money the federal government transfers to states and municipalities to an emergency social fund.

The proposal has antagonised several powerful state governors, who bave patron-client relations with congressional deputies. Mr Orion Herter Cabral, finance secretary of the southern state of Rio Grande do Sul, douhts Mr Cardoso's plan will work. "The governors won't give up the money," he says.

Another worry is the paralysis in congress as a result of corruption hearings involving more than 30 politicians.

But Mr Cardoso hopes congress's problems, and its discredited public image, offer bim an advantage. By placing responsibility for the programme on congressional approval be is betting congress will not run the risk of being blamed for its failure.

Even with congressional support, the package faces problems. Probably the most difficult to quantify is the role of President Itamar Franco. Although so far supportive of his finance minister, the president is famously erratic and has a populist view of economics. He is thought to have pressed Mr Cardoso to introdnce a price freeze or some similar "magic" measure. If inflation increases in the next few months, as is possible in January for technical reasons, such pressures may re-emerge.

Problems also lie ahead on salary policy. Salaries for public sector and many private sector employees are re-adjusted by reference to indices measuring past rates of inflation. Moving to the new index will either require persuading employees to take a real pay cut, or allowing past inflation to seep into the new index.

Texas relents in row over gay rights and investment

By Jurek Martin in Washington

After a furious local debate pitting jobs against "family values," a county in Texas has reversed a decision taken last week and decided to offer incentives to Apple Computer to attract a new investment.

At issue was Apple's policy of offering health benefits to homosexual employees.

Last week the five-member board of commissioners for Williamson county, just north of Austin, the state capital, voted 3-2 against giving the company nearly $1m (£600,000) in tax breaks in order to secure an investment providing up to 1,500 new jobs.

Apple promptly threatened to look out of state for a location, bringing Governor Ann Richards, np for re-election next year, vigorously into the fray on its behalf. The company, which has held a lease option on the land in Williamson County for some years, said it had been besieged by offers from other Texas counties.

On Tuesday the commissioners reconsidered and decided in favour, also by a 3-2 margin, of a different deal amounting to the reimbursement of costs to develop the 128 acre site, worth approximately the same amount. The company said it was satisfied.

The saga had made Georgetown, the county seat, briefly the centre of national attention, with rallies organised for TV cameras both by gay rights activists and the religious right. The commissioner who reversed his vote on Tuesday insisted he still opposed Apple's policies and argued that the new decision did not amount to public funding.

Thatcher tries to avoid flak on Iraq exports

By Jimmy Burns

LADY Thatcher yesterday publicly distanced herself from any responsibility in the arms-for-Iraq affair.

In an energetic performance before the Scott inquiry which at times echoed her confrontational style at the parliamentary dispatch box, she claimed that while serving as prime minister she had no knowledge of much of the detail behind the decisions taken by officials and her ministers or of key intelligence relating to illegal British defence exports.

She was giving evidence to Lord Justice Scott's inquiry into the government's handling of military related exports to Iraq during the period she was prime minister.

But the hearing appeared to raise more questions than it answered, given her persistent refusal to be drawn on some of the key aspects of the inquiry.

Amid tight security, she told the inquiry that she had not seen many of the documents she was being referred to by the inquiry while in government, which showed officials and ministers sidestepping government guidelines restricting defence exports to Iraq.

"Most of the documents before me I had never seen (while in government) . . If I had seen every copy of every minute when I was in government I would have been in a snowstorm," she said.

Lady Thatcher said she had not been made aware until the summer of 1990 of intelligence suggesting that British machine tools were being used to boost Iraq's military capability and that Jordan was being used as a diversionary route.

As PM, Lady Thatcher was supposed to be provided with weekly summaries of key intelligence on matters affecting government policy.

But asked to explain evidence from officials and ministers that intelligence had been badly distributed, she said: "Either the machinery was there and was not effective . . or else tha machinery itself was defective."

The Scott inquiry was set up by Lady Thatcher's successor, Mr John Major, in the midst of a political furore surrounding the collapse of the trial of three businessmen of the Midlands machine tool company Matrix-Churchill.

The businessmen were prosecuted for illegally exporting arms to Iraq, but their trial collapsed after it emerged that government ministers had known aud approved the exports.

Lady Thatcher said that the first and only time she had personally been involved in the export of British machine tools to Iraq was in July 1990, which she claimed was in line with a general international relaxation in restrictions on the export of industrial goods.

Intellectual wrestling graces high-profile arena

Baroness Thatcher's appearance before the Scott Inquiry was billed as a constitutional battle of the titans.

In the blue corner, immaculately turned out in a dark green tailored suit and double rope of pearls, was the first British ex-premier to appear before a public judicial inquiry.

Facing her, in the grey corner, were Ms Presiley Baxendale QC, wearing a loud houndstooth black and white check jacket, and Lord Justice Scott, a picture of judicial *gravitas* in half glasses and double breasted suit.

Their goal was to wrestle from her whether sales by UK companies of military equipment to Iraq during the late 1980s, in apparent contravention of stated government policy, were made with or without her knowledge and approval.

The arena was No.1 Buckingham Gate,

and for the first time since the enquiry began six months ago, it was packed, overflowing into an anteroom. The corridors swarmed with uniformed police and special branch officers. Most of the crowd were journalists, who had queued since 7.30am.

When the contest began at 10am, Lady Thatcher appeared tired and defensive. Ms Baxendale – whom Lady Thatcher insisted on calling "Miss" in a slightly deprecating tone – was enthusiastic and rigorously analytical, qualities which have terrified the officials and ministers she has already examined.

But appearances were deceptive. Lady Thatcher had studied carefully the 76 pages of questions the judge sent her a month ago. She parried every attack and on one occasion congratulated herself for providing a convincing reply to the one question she had not "spotted" in advance.

Her overall strategy was simple. The most hands-on prime minister in recent history argued that she never got involved in the detailed application of the arms sales policy.

Lord Scott looked at her quizzically when she said about a dozen times that she concerned herself with "policymaking", never with "detailed administration". But he had no evidence to the contrary.

In six and a half hours of cross-examination, only five substantive questions were put, the character of which might be summarised by the following sorts of exchanges between the two women:

Baxendale: Why was there a gap of a year between the formulation of a new policy banning sales of arms to Iran and Iraq in late 1984 and its disclosure to parliament in October 1985?

Thatcher: Don't know.

Baxendale: Should parliament have been told earlier?

Thatcher: That might have been preferable because it would have saved me a lot of this bother.

By four o'clock Ms Baxendale was looking tired and had lost her customary eloquence. Lady Thatcher was positively buoyant. When told there was to be a short break, she looked annoyed. "I do hope we go on till we finish", she challenged. Ms Baxendale may have met her match.

Robert Peston

UK lagging in higher education ratio, says OECD

By John Authers

Wide variations in the amount nations invest in education, and in the numbers in higher education were shown in a report yesterday by the Organisation for Economic Co-operation and Development.

Based on 1991, the latest year available, the report – Education at a glance – showed that the UK had one of the lowest participation rates in higher education, sending only 28 per cent of its 18-year-olds to full-time education.

The total entry to higher education has risen this year to 31 per cent.

Switzerland had a lower figure, with 27 per cent, but several other nations sent a much larger proportion of youngsters to university. The US had the highest proportion with 65 per cent, Australia on 52 per cent, and Germany on 45 per cent.

However, the UK enjoyed the highest graduation rate from university of any EU nation surveyed, with 18 per cent, although this still ranked below Canada (33 per cent), the US (31 per cent), and Australia and Japan (24 per cent).

The UK's Committee of Vice-Chancellors and Principals said the low participation figure showed that Britain was in danger of becoming the "village idiot of Europe".

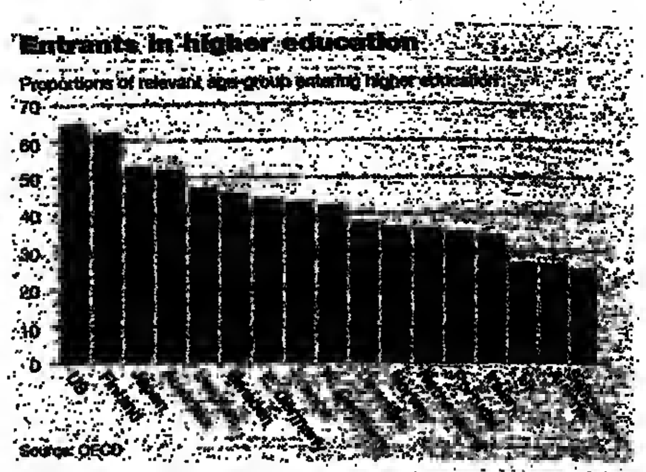
There were even greater variations in the resources devoted to education for different age groups. While there were only eight pupils per teacher in Belgian secondary schools, average classes were as big as 19 in Australia, and 17 in Japan and Eire.

Variations in provision of vocational education were even greater, although different schemes make comparisons awkward.

In Germany 80 per cent of secondary pupils took some form of vocational education or apprenticeship, while none at all did so in Canada. In the UK, the figure was 20 per cent, lower than all its leading competitors, including Japan (28 per cent), France (55 per cent) and Italy (71 per cent).

The Department for Education in London said the figures underestimated further education, because they excluded part-time education.

If all forms of education are taken into account, the UK's participation in the first year after the end of compulsory schooling was 94 per cent, compared with 90 per cent in France, and 71 per cent in Spain, it said.



Source: OECD

Japan's envoy speaks his mind

By Alexander Nicoll, Asia Editor

Japan's ambassador to Britain, Mr Hiroshi Kitamura, yesterday let go some of the diplomatic reserve which would normally be expected of him to offer some highly personal thoughts on British managers and Britain's role in Europe.

During two assignments spanning six years in the UK, Mr Kitamura said he had noticed that although top managers in manufacturing industry were of high calibre, many were by training lawyers, financiers and accountants.

In his opinion, the views of engineers and scientists should carry proper weight when companies decided on long-term strategies and development of new products. "In order to combine science with technology, and technology with innovation, it is important to promote people to top management with a thorough understanding of technology."

Mr Kitamura, speaking at the heart of British management, the Institute of Directors in London, did not confine himself to top managers. He had detected "something of a shortfall in middle management." This was of concern, he argued, because this level was responsible for ensuring production line efficiency and product quality.

But on a more positive note, he said Britain was the "trail blazer" for an open trading Europe, leading its European partners in the direction of an united Europe along pragmatic lines.

Solicitors win right to wider advocacy

By Robert Rice, Legal Correspondent

Barristers' 200 year monopoly on advocacy in the higher courts was finally broken yesterday when solicitors in private practice won their long running battle for wider rights of audience.

The decision by Lord Mackay, the Lord Chancellor, and England's four most senior judges to approve the Law Society's application for wider advocacy rights means solicitors could begin presenting cases in the higher courts as early as next spring.

The society was delighted by the decision, but was disappointed that Lord Mackay and the judges had deferred their decision on wider advocacy rights for solicitors working in the Crown Prosecution Service, the government legal service and in commerce, finance and industry.

The decision was also greeted with pleasure by many of the City law firms which have been gearing up to do their own advocacy work in the High Court.

Solicitors who have already gained the necessary experience in advocacy either as part time judges or who have earlier practised as barristers, will be able to appear in the High Court almost immediately.

The bulk of the profession however will have to complete two law society training courses and it could be 1995 before most of them qualify to appear in the Crown Court, High Court, Appeal Court, or before the House of Lords.

Upbeat mood over Ulster prospects

By Philip Stephens in London and Tim Coone in Dublin

The British and Irish governments yesterday voiced growing confidence that they would agree before Christmas a joint declaration designed to persuade the IRA to give up its campaign of violence in Northern Ireland.

But on the eve of the second meeting within a week between Mr John Major, the British prime minister, and Mr Albert Reynolds, the Irish prime minister, officials conceded that Dublin's demand for a new all-Ireland convention remained a crucial stumbling block.

In London, officials said they were confident that the proposed declaration – likely to be finalised at a third meeting between the two leaders next week – would include firm guarantees for the Unionist majority in Northern Ireland.

Those guarantees would centre on explicit recognition by Dublin that any change in the province's status could be achieved only by consent and on a commitment by the Republic to drop its constitutional claim to the North.

It is understood that Britain has agreed to repeat publicly the offer to Sinn Féin of a place in negotiations in return for an end to violence and to recognise the legitimacy and validity of the nationalist aspiration of Irish unity.

Mr Major may also reaffirm that his government has no strategic interest in maintaining Northern Ireland as part of the UK union and signal its willingness to accept separate referenda in the North and South on any eventual political settlement.

But the British side has rejected as unacceptable to the unionist parties the establishment of an all-Ireland convention and is resisting Dublin's demands to acknowledge publicly the right of self-determination across Ireland.

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Compensation looms over personal pensions

By Alison Smith

Four out of five personal pensions sold to people transferring out of employers' schemes into private plans was done so without agents seeking enough information to provide proper advice, according to an independent study.

Up to 400,000 people could be affected and several hundred million pounds in compensation may have to be paid by virtually every life insurer, bank and building society in the country.

As the newe emerged, Mr Andrew Large, chairman of the Securities and Investments Board, the City's chief watchdog, spelt out how compensation would be handled and what measures would be taken to ensure that customers would only be sold appropriate personal pensions in future.

An advisory committee made up largely of chairmen of the relevant professional and trade associatinns, and chaired by Sir Douglas Wass, formerly a senior civil servant, will assist the SIB board.

The pilot study which points to widespread abuse in the sale of personal pensions was commissioned from the accountancy firm KPMG Peat Marwick. KPMG sought to assess how many people were at risk of disadvantage from having followed poor advice. The report is to be published before Christmas.

It found that in 80 per cent of cases examined, sales agents had not properly complied with regulatory requiremants for selling this type of pension.

If this reflects what happened as up to 500,000 individuals were sold personal pensions, then some 400,000 cases could be re-opened with the sales agents as part of the SIB's review.

Many of these will have to be raised with the individual customers, to establish who might be worse off in retirement as a result of following poor advice.

While he acknowledged that people covered by the review who had already retired might be receiving less income than they were entitled to, Mr Large emphasised that all those affected would be fully recompensed.

"Those who may have transferred their pension provision on the basis of wrong advice will not be harmed hy waiting for reliable solutions to emerge," be said.

The government is facing particular embarrassmant, from the political emphasis that was put on the benefits of taking out a personal pension in terms of flexibility.

If you believe you have been wrongly sold a personal pension, the first step will be to return to the person from whom you bought the policy.

Mr Andrew Large, chairman of the Securities and Investments Board said yesterday he was confident the majority of firms will co-operate and ensure customers do not suffer as a result of past advice. If yon bought your pension from a member of Lautro, the life assurance and unit trust regulator, if you are not satisfied you can write to the Compliance Officer of the company concerned – the person who sold you the pension should have given you a card, indicating the regulatory body of which they were a member.

If you bought your pension from a member of Fimbra, the regulator for financial intermediaries, your first step is to contact the independent financial adviser concerned.

If it is decided that yon should receive compensation, there will be no cash handnuts, except for tbose who have retired.

CBI director-general Howard Davies and Mikhail Gorbachev during yesterday's press conference

Gorbachev urges UK-Russian co-operation

Jobs can be created in Britain if companies become involved in rehuilding the Russian economy, former Soviet leader Mikhail Gorbachev said in London yesterday.

Mr Gorbachev said his talks with 40 business leaders, organised by the Confederation of British Industry, had been "useful" and he discovered that British companies were happy to do husiness in the former Soviet Uninn despite continuing political uncertainties.

"Something that is of real concern to them is the possibility of a major conflict between the republics that wnuld create problems for business," said Mr Gorbachev through an interpreter. "We are inviting businesses to Russia not to do some charity work bnt on the basis of mntual benefit."

The former Soviet president, who went on to lunch with British prime minister John Major, told senior officials from top UK firms that he was willing to help improve trading links between the two nations.

Britain in brief

Treasury boost for UK recovery

Britain's economic recovery looks set to continue with inflationary pressures staying muted, according to the UK Treasnry's latest monthly monetary report.

The document, prepared for yesterday's mnnthly discussion of monetary conditions between Mr Kenneth Clarke, the chancellor, and Mr Eddie George, the governnr nf the Bank of England, noted that "recent monthly indicators confirm the picture of recovery continuing". It added that UK producer price inflation "snggests inflationary pressures remain subdued".

ABTA case judgment reserved

Judgment was reserved yesterday in a High Court action hy a schoolgirl and her teacher against the Association of British Travel Agents fnr return of a £10 holiday insurance premium which was not repaid when one of ABTA's members went nut of business.

About 25,000 other cases, with a value of £250,000, are resting on the outcome.

ABTA denies liability.

No appeal on fishing rule

The UK Ministry of Agriculture has decided not to appeal against last week's decision by the High Conrt to refer to the European Court a legal challenge hy fishing groups of the government's new rules limiting days at sea.

Fishermen return tn the High Conrt on January 11 seeking an injunction against the new rules cnming intn effect before a decision by the European Court which could take two years.

Saunders in Euro move

Mr Ernest Saunders, the former Guinness chairman convicted of fraud over the company's 1986 take-over of Distillers, has won the first round of his attempt to use European law to challenge his prosecution.

The European Commission on Human Rights has ruled Mr Saunders has a partially admissible case fnr it to consider.

Mr Saunders is claiming that he was denied a fair hearing at his trial because the prosecution used evidence sgainst him which was gained from his interviews with Department of Trade and Industry inspectors.

During these interviews, he was compelled to answer questions. He claims the use of transcripts during his trial therefore infringed provisions in the European Convention on Human Rights which protect against self-incrimination.

Modest success in share drive

The government's pnsh for wider and deeper share ownership in the UK shnws nnly modest success, according to a survey for the Treasury.

The NOP survey shows that 10m people, or 22 per cent of adults, nwn shares, compared to 21.5 per cent in December last year.

At its peak in 1991, there were 11m shareholders in the UK compared to only 3m in 1979 before the wave of privatisations began.

The proportion of shareholders owning stock in more than one company has increased for the third consecntive year from 40 per cent in 1990 to 49 per cent today. Bnt the proportion of those owning stakes in 10 or more companies, 4 per cent, is still small and shows no increase on last year.

R&D centre for Wales

A £2m research and development centre for the motor industry is to be opened at Llanelli in south Wales hy Calsonic International (Europe), subsidiary of Calsonic Corporation of Japan.

The centre will be huilt next to the Calsonic-Llanelli Radiators plant which makes heat exchange products for the automotive industry. It will work on product design, development and testing and bave a staff of 30 people.

Insurers to appeal award

Insurers, including syndicates at Lloyd's of London, are to appeal against a $386.4m (£259.30m) punitive damages award earlier this week by a Los Angeles jury in a prodnct liability case.

A Los Angeles state conrt awarded the damages to two subsidiaries of Amoco Corporation, tbe Chicago-based energy company, in nne of the largest jury verdicts in the US this year. The punitive damages award follows a $39m compensatnry damages to Amoco on 3 December.

Some 90 insurers, inclnding an estimated 50 Llnyd's syndicates, are affected.

Plans for reform of shipping register

By Charles Batchelor, Transport Correspondent

Plans fnr an open register of Britisb shipping to tempt internatinnal shipowners to hase their operations in London have been put to the government hy the Baltic Exchange.

A key attraction of the new register would be less stringent rules on the use of UK officers. It is designed to attract foreign shipowners to the UK and to persuade UK shipowners using offshore shipping registers to resume flying the UK flag.

Many shipowners have switched to flags of convenience because of the costs of maintaining UK crews and meeting the conditinns of the existing UK mainland register.

The Baltic Exchange, where cargo space and second-hand ships are traded, has calculated that the new register could attract between 400 and 800 ships over the next five years boosting the city's shipping earnings, excluding insurance, by £40m-£135m.

But the proposal, which has been put to Mr John MacGregor, transport secretary, has been criticised by the shipping unions because of its feared impact on jobs.

The new register would be open to shipowners not able to register under the UK mainland flag because of their nationality or because they were incorporated outside the UK. It is also intended for companies which do not use the UK flag because of their manning arrangements.

Shipowners would have to comply with UK safety standards but they would not need to have three British senior officers. Registration would not make non-UK companies liable for UK tax.

Classical record sales hit a sour note

By Antony Thorncroft

UK sales of classical music albums have fallen sharply in recent years according to figures in the Policy Stndies Institute's yearly Cultural Trends, published today.

Trade deliveries of classical alhnms totslled 12.35m in 1992, 26 per cent less than the 16.688m despatched in 1990. After two years at nver 10 per cent of deliveries, classical albums made np only 9.2 per cent last year.

The new issue of Cultural Trends underlines the virtual disappearance nf the vinyl LP. In 1985, half the deliveries to the retail trade (excluding singles) were LPs. By 1992 that had fallen to just 3.9 per cent. In the same period, dellveries of CDs rose from 6.6 per cent to 62.2 per cent. Cassettes fell from 43.6 per cent to 33.9 per cent.

Expenditure on recorded music has been hit by the recession, falling from £1.27bn in 1989 to £1.243bn last year, despite the high price of CDs. Hardware sales dropped in line, from £942m to £895m.

The report also predicts difficulties for Britain's museums and galleries, with funding by national and local government declining after years of real growth.

It is estimated that a record total nf around 80m people visited UK musenms and galleries in 1992.

However while non-charging museums, like the National Gallery and the British Mnseum in London, report ever rising atiendances the national museums with charges, like the Natural History and the Science Mnseum, record substantial falls in visitors from the mid-1980s.

MANAGEMENT: MARKETING AND ADVERTISING

Why 3i catches the eye

This autumn's launch of a series of newspaper advertisements by 3i (Investors in Industry) continues the tradition of colourful advertising established by Britain's largest venture capital company in the early 1980s.

The first in the five-strong series, devised by J. Walter Thompson, showed brightly coloured offices and factories – to represent the medium-sized company sector – surrounded by the grim blacked-out skyscrapers of big business.

The darker tone of this series reflects the tougher economic climate, says Chris Woodward, 3i marketing director. 3i has long had a reputation for innovation in an otherwise dull financial advertising sector, although its ads have been criticised as lacking in gravitas. But, says Woodward, you must grab the reader's attention.

British financial advertising may be old-fashioned, but in Germany, where 3i has also established a market presence, it is Jurassic. So if anyone could be expected to dismiss 3i's ads as lightweight it would be the German entrepreneur or manager. But even in Germany response has been favourable, says Woodward.

In the early days, 3i's ads featuring a pastel-wash "eye" logo were striking but little thought went into communicating what the company did – equity and long-term loan finance for small and medium-sized firms. In recent years advertising has focused more tightly on the 3i message and reaching the right people. The latest campaign targets managers in the UK's 10,000 medium-sized businesses, a sector which 3i expects to grow rapidly.

In 3i's most recent managers survey, 200 were asked who they would approach to start, grow or buy a business – 60 per cent mentioned 3i.

This figure compares with just 8 per cent in 1983 and is higher than for any of the banks, says Woodward.

That is not surprising, given 3i's established position in the venture market and the number of competing high street banks, but, claims Woodward, it does show that 3i has established a brand for middle businesses, creating a positive feeling among potential customers.

Charles Batchelor

Classroom exports

UK boarding schools are attracting more foreign pupils with vigorous marketing, says John Authers

Children of the world: Sevenoaks School in Kent includes 30 nationalities

Colin Beere

"Pipers' Corner School. 15 miles from Heathrow," proclaimed a banner at a recent exhibition of UK independent schools. It was by no means the only one enthusiastically touting its convenience for international travellers.

The recession, and its impact on wealthy parents' salaries, has given UK boarding schools a stressful few years, and last year saw a sharp, headline-grabbing fall of 6 per cent in the total number of boarders at UK schools.

But the same survey showed that their success as exporters had improved noticeably, with a rise in foreign pupils of 3.9 per cent.

Boarding schools have always provided a home for the children of British expatriates, but they are now increasingly selling their wares to foreigners.

Starting from a base in areas of strong British influence, notably Hong Kong and Singapore, schools are now recruiting heavily from the other emerging economies of the Pacific – despite competition from Australia and the US – and are even beginning to penetrate Europe and the Middle East.

Last year, the number of new recruits from Hong Kong increased from 458 to 506, while the remainder of East Asia saw an increase from 391 to 441. The number of new Europeans rose from 568 to 605.

Apart from extensive and ambitious trips to drum up custom, schools are also tailoring the courses they offer to include internationally recognised qualifications and lessons in English as a second language.

Free transport between airport and school is provided each term for the pupils, and marketing material is slickly produced in several languages.

Foreigners come for differing reasons, which the Independent Schools Information Service (Isis) is careful to analyse. According to John Towey, of Isis, British schools are now recapturing ground previously lost to Australia.

Schools there appealed to Asian parents because fees tended to be lower, and transport costs were less prohibitive. Parents these days are usually making a hard-headed investment rather than looking for any "snob" value carried by Britain's public schools.

An important attraction of British schools is the route they offer into British higher education. Parents in Hong Kong, Taiwan or Malaysia are increasingly keen for the career advantages this can offer.

Towey also notes a sharp change in attitude in the last three or four years. Parents now want close details of exactly who is going to care for their child, and some guarantee of a stable background.

Getting the message across, however, is time-consuming and expensive. Parents are widely dispersed, and need close attention from school representatives before they will commit their children to a journey around the world.

An ever-growing number of school development officers have therefore resorted to lengthy trips to East Asia. Many schools use the co-ordinated marketing offered by Isis, which arranges international exhibitions and fairs in these areas. But increasingly, head teachers are travelling in person.

Not only the more eye-catching public schools are looking east. St Aubyn's, a Sussex prep school with around only 115 pupils, still felt it worthwhile to send its headmaster on a tour of Thailand, Malaysia and Hong Kong this year.

It is a traditional cosy prep school, but still uses high-quality marketing aids. Julian James, St Aubyn's headmaster, took copies of the school video, featuring a voice-over by television presenter Chris Serle, and ringing endorsements from the former heads of Radley and Harrow.

The message is clear – truly ambitious parents can improve their son's chances of a place at a public school by placing him at a prep school first. Statistics on the number of boys moving on to Eton and Winchester were also readily available.

However, James found that parents were most keen just to find a stable environment for their children. The other vital point was academic quality – the Chinese, in particular, were anxious that their children would be worked hard, and that they would go on to good public schools and universities.

However, he did find one note of caution for schools which are boosting foreign recruitment – many parents were keen that most of their sons' companions would be English. As a result, St Aubyn's is limiting its non-English intake to 10 per cent.

Cultural differences can make negotiations more difficult. Richard Pearce, admissions director for the International School of London, has compiled a glossary of what parents really mean by the questions they ask. For example: "We have heard that your school is the best in England" could mean "Prestige is important in our country and there are few prestigious schools," or it might just be an attempt to be polite.

Another common question is: "Is your school recognised by the ministry of education?" Pearce interprets this as a statement that certificates matter more than general education, and that in the home country some, or all, private schools are of dubious quality.

Tactics for attracting students from Europe are different. The opportunity to improve English is important, while A-levels, attractive to children from East Asia hoping to go to an English university, are less popular.

Schools keen on signing up students from Europe are starting to offer the International Baccalaureate, which is recognised in several countries, as an alternative course.

Sevenoaks School in Kent introduced the IB 10 years ago, and is now truly international, with 30 nationalities represented in its student body.

Malvern College in Worcestershire is also now offering the IB, and has been rewarded with a sharp increase in applications from Germany. Many schools now see a limited future for A-levels and the move towards the IB is likely to continue.

Other independent schools are trying to build links with the former communist bloc countries. Uppingham School, in Leicestershire, now has a full-time European liaison officer, and offers scholarships to eastern Europeans. The aim, apart from helping the countries in their hour of need, is to build links with their future decision-makers.

Bright spots in a cloudy forecast

Diane Summers on the outlook for global advertising growth

The outlook for global advertising is not as bright as it looked six months ago, according to the latest advertising expenditure forecasts from Zenith, the UK-based Saatchi and Saatchi media-buying company, published this week*.

Expectations of growth for 1994 have been cut to 5.5 per cent, compared with the 6.2 per cent Zenith was hoping for when it last reported in July. Similarly, forecasts for 1995 have been reduced to 6.5 per cent from 7.3 per cent.

Zenith's six-monthly forecasts – which now predict a 4 per cent global increase for 1993 – are among the most closely studied in the advertising industry.

The scaling back of its expectations can chiefly be attributed to deteriorations in the US and Japanese advertising markets. Figures for Europe have remained stable, with the UK and France showing gradual improvement.

The global figures also disguise areas of the world in which exceptionally high growth is expected. Top of the league is China, where growth of nearly 72 per cent is expected over the next three years.

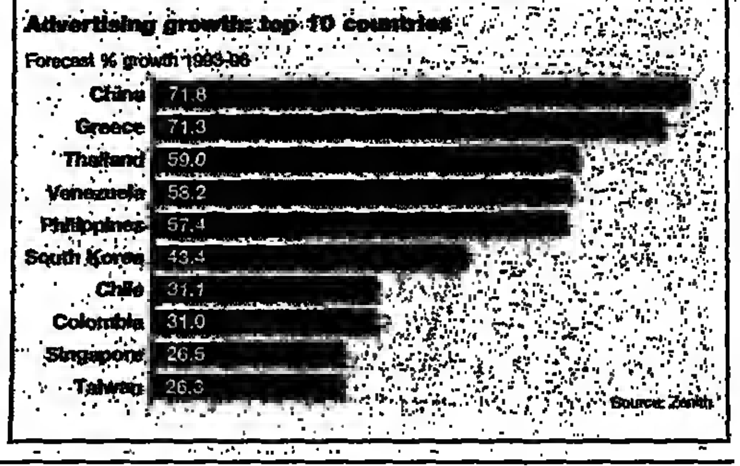
Rate increases in China continue at what Zenith calls a "staggering pace" as media owners cash in on heavy demand from overseas advertisers seeking to reach the country's 1.2bn consumers. The report says that rates for foreign advertisers are significantly higher than for Chinese companies. Demand outstrips supply in advertising space and airtime.

In Greece, the only European country to be included in the report's top 10 countries for growth, television is the main focus of attention. New licences were allocated this summer to six national operators – about 145 channels have been broadcasting illegally in the country for the past six years. Daily newspapers have seen a decline in circulation, while magazines have been strong. The increasing popularity of "drivetime" radio has prompted a continuing rise in radio's share of advertising revenue.

Moves have been made by the Thai government towards liberalising television, which should augur well for spending in that area. The introduction of VAT on advertising in Thailand last year did not have a big effect on advertising spending, with two of the fastest-growing sectors being leisure and transport. Thai Rat, the largest daily newspaper, continues to grow. "Advertising demand for the title is enormous with advertisers being allocated on average half of the advertising space requested," says Zenith.

In the Philippines power cuts have darkened Manila for between four and nine hours every day since 1991. In spite of this, television continues to claim 65 per cent of advertising expenditure and its share is forecast to continue rising over the next three years.

**Advertising Expenditure Forecasts, from Steven Winram, Zenith Media Worldwide, Bridge House, 63-65 North Wharf Road, London W2 1LA. £195.*



LEGAL NOTICES

IN THE MATTER OF THE REHABILITATION OF MUTUAL BENEFIT LIFE INSURANCE COMPANY a Mutual Insurance Company of New Jersey

SUPERIOR COURT OF NEW JERSEY
CHANCERY DIVISION
MERCER COUNTY
GENERAL EQUITY PART
DOCKET NO. C-91-00189

CIVIL ACTION

NOTICE OF ENTRY OF ORDER (1) CONFIRMING FIRST AMENDED PLAN OF REHABILITATION, AS MODIFIED, AND (2) COMMENCING PROVISIONAL LIQUIDATION OF THE MUTUAL BENEFIT LIFE INSURANCE COMPANY

TO: ALL POLICYHOLDERS, AGENTS, CREDITORS OR OTHER PERSONS OR ENTITIES INTERESTED IN MUTUAL BENEFIT LIFE INSURANCE COMPANY OR ITS ASSETS

[illegible]

Samuel F. Fortunato
NEW JERSEY COMMISSION OF INSURANCE AND REHABILITATOR OF THE MUTUAL BENEFIT LIFE INSURANCE COMPANY

No. 008175 of 1993
In the High Court of Justice Chancery Division
IN THE MATTER OF ASDBIT INTERNATIONAL PLC
and
IN THE MATTER OF THE COMPANIES ACT 1985
[illegible]

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هكذا من الأصل

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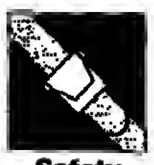
TECHNOLOGY

Protection in road accidents is now a selling point, as **Andrew Fisher** reports in a series on transport safety

Cars that can save your life



Safety in travel

Today's cars are safer than ever, but this is not true of all drivers. Bad driving causes most accidents, not faulty design. The seasonal pile-ups on European motorways at times of bad weather and low visibility happen because people drive too fast and too close together.

But safer cars can increase the chances of survival, however carelessly people drive on highways, town roads or country lanes. Although accident rates have decreased in many countries, despite steady growth in traffic, the number of deaths is still high – some 154,000 a year worldwide, including 50,000 in the EU, 47,000 in the US and 13,000 in Japan. Global injuries exceed 5m.

As a result, safety features in cars have achieved a greater prominence than ever in motor companies' design and marketing policies. Television advertisements are just as likely to show how tough and manoeuvrable cars are as to parade their performance and glamour.

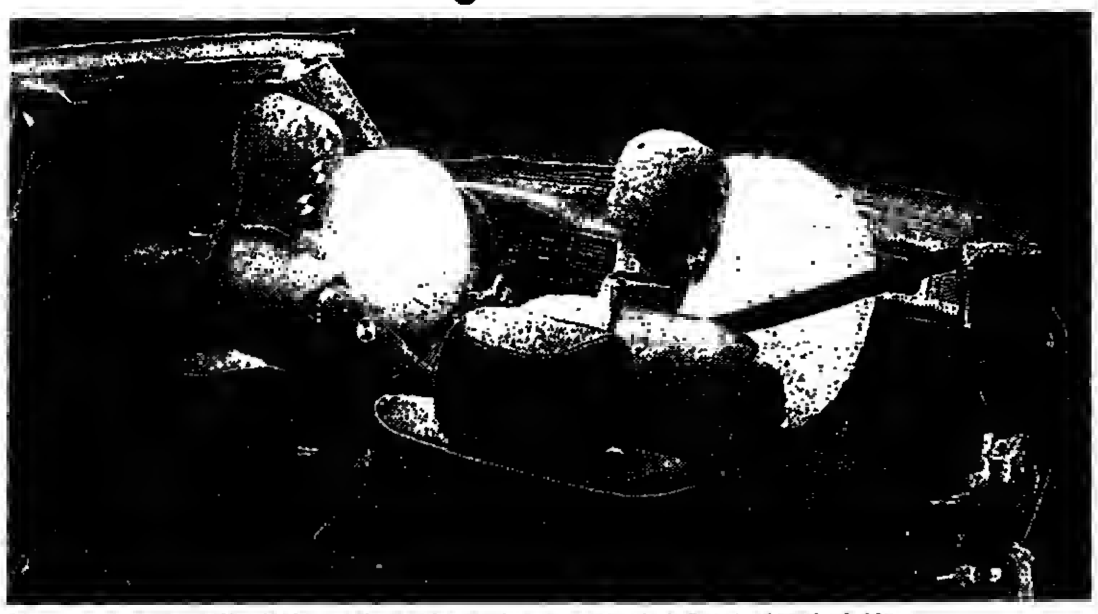
Figures from the German motor industry association show that human factors account for 90 per cent of accidents resulting in injury; the other causes are mainly poor weather, bad roads, and faulty vehicles and maintenance. Thus the main intention behind the emphasis on safety technology is to save people from the consequences of their own and others' bad driving.

Car buyers seem more willing to pay extra for safety as new features are developed. "It is obvious that manufacturers now see safety as a sellable item," says Ken Barnes, head of engineering at Britain's Society of Motor Manufacturers and Traders.

Sweden's Volvo used to be alone in highlighting its models' safety qualities. Now, its rivals vie to do the same. Technological advances have made available a wide range of sophisticated braking, suspension, structural, and body protection systems for today's cars.

"People used to say 'safety doesn't sell'," adds Malcolm Thomas, overseeing the introduction of Ford Motor's Mondeo mid-range family and company car in the US after managing its launch in Europe. "Twenty years ago, those in the industry wondered how you could get people to pay extra for safety." There is still a limit to how much car buyers will pay. But manufacturers are now far more alert to changing customer perceptions – airbags, for example, are increasingly seen as essential in new cars, especially in the US – as well as to legislative trends.

Safety is now an important part of companies' competitive strategy.



Safety standards: Ford's Mondeo is one of a growing number of cars now including steering wheel airbags

"Manufacturers are leapfrogging each other," says Gary Suthurst, an automotive consultant at the Cranfield Impact Centre. "Safety will continue to increase as a prime marketing strategy, mainly due to competitive and consumer pressure rather than legislative moves."

When designing the Mondeo, Ford decided to integrate safety into the overall construction from the start. It drew up safety guidelines for its engineers. "The idea was to get away from being reactive to safety legislation and to be proactive," adds Thomas.

It took into account likely changes in the law that would affect the car not only when it was introduced but well into its life. Among the standard features on the Mondeo are steering wheel airbags, anti-lock braking systems (ABS), seat-belt grabbers and pretensioners using sensors to reduce slack on impact, and seats with "anti-submarine" ramps to stop them sliding forward in a crash.

For its side-impact bars – another feature that companies are marketing more and more in new vehicles – Ford went to Sweden for special boron steel which has very high-tensile strength. "Previously," says Thomas, "we might have gone for mild or high-strength steel tubes."

Side-impact bars were originally developed in the US, where many accidents involve pick-up trucks. Not all experts believe they are necessarily suited to European conditions, in which collisions mostly occur between vehicles of similar size. In fact, says Suthurst, stiff impact bars can harm passengers, especially in four-door cars with a rigid upright in the middle.

Buyers seem more willing to pay extra for safety as new features develop

The question of side impact has gained increasing attention in recent years. At present, European regulations specify only the need for cars to be tested for full frontal impact. But most accidents involve some form of angled collision.

Auto Motor und Sport, the German motor magazine, caused a furore when it started testing cars by crashing only one side into a concrete block. Instead of the force being evenly absorbed by the protective struts at the front of the car, these were distorted. Passengers were thus at greater risk than the frontal tests had indicated.

Such so-called offset tests are now being studied in Europe for possible introduction, using angled barriers with anti-slide devices to reproduce typical accident conditions. However, useful as they are, tests cannot guarantee cars' safety in widely varying conditions.

"Often, companies know how to make cars better than the law requires," says Majid Sadeghi, managing director of the Cranfield centre (part of Cranfield Institute of Technology). Tests have to be repeatable and can give only a simplified version of road conditions.

For several years, the big car companies have used supercomputers to simulate crash conditions and speed up design work on safety features. Ford made intensive use of these to build the Mondeo and ensure it could be adapted for North America and other markets.

"You can strip away all the elements of the car in a computer model," says John Charles, safety supervisor at Ford's UK research unit in Essex. "You can test all the components and materials for stresses and strains." This cuts down on the number of controlled crashes that car companies need to do, saving time and money.

"On a computer, you can simulate different types of occupant," explains Udo Westfal, director of safety at the European Automobile Manufacturers Association in Brussels. "Instead of using dummies, you can vary the size of the occupant. It's a very advanced way of developing a safe product without using an infinite number of cars."

For US tests, the dummy's acceleration has to be measured. (In European tests, only the steering wheel's movement is recorded.) "Most serious impact occurs in the first 20 to 40 milliseconds," says Aruna Tilakasiri, a computer applications engineer at Ford in Essex. "So we show the result up to 50 milliseconds." Computers also show how airbags absorb the impact of crashes at different speeds.

In an accident, a person's body weight can move at a pressure of up to 50 times gravity in a frontal impact. Safety belts are designed to absorb these huge forces. For further protection, Audi, the up-market subsidiary of Germany's Volkswagen group, has developed the procon-ten (programmed contraction and tension) system using steel cables to pull the steering wheel away from the driver.

As more companies offer airbags, mainly for drivers as extra protection against steering wheel injuries, buyers have yet another feature to weigh up in the cost-safety equation. While some top-of-the-range manufacturers such as Mercedes-Benz already provide airbags in all their cars, these are now becoming common on smaller models.

"This is a big step forward and it is being initiated not by legislation but by competition," says Westfal. Not all experts are convinced of the value of airbags, arguing that their popularity in the US reflects the fact that drivers are less keen on wearing seat-belts than in Europe.

However, Jürgen Gerstenmeier, a development manager at Robert Bosch, the German automotive equipment maker, says airbags could help prevent injuries in 68 per cent of accidents; use of driver airbags in all cars could cut yearly deaths by 50,000. Even side airbags are being worked on. Too many safety features, though, could prove too costly for most drivers – it would be simpler, and cheaper, if they drove slower and more safely.

The series concludes next week with a look at marine safety.

Prometheus unbound

John Griffiths looks at progress in Europe's traffic technology project

Prometheus, say supporters, is alive and well and will prove it in Paris next October when the EU's leading indigenous vehicle makers and close associates in electronics and components will demonstrate, for the first time in three years, their progress under one of the region's biggest collaborative research programmes.

Prometheus stands, in this case, not for the ill-fated thief of fire from the gods, but Programme for a European Traffic with Highest Efficiency and Unprecedented Safety. The Paris exposition will show more of the wide variety of technology – some of it in vehicles which can be driven – which has been developed since Prometheus first began in 1986. It ranges from systems allowing drivers to "see" through dark and fog, to ultra-sophisticated route guidance and congestion avoidance systems.

The research and development engineers and scientists engaged in Prometheus have, by agreement, worked mostly behind closed doors since the first display of the technology's potential in Turin in late 1991. That was largely to convince technocrats from both Brussels and individual governments that funding of Prometheus to the tune of some Ecu90m (£69m) a year was worthwhile.

Renewed funding commitments are required from the end of next year and industry participants say progress is such that refusal will be difficult. If Prometheus achieves its goals, the EU's 50,000 road deaths a year will be halved and transport efficiency, measured by traffic flows, increased by a third by 2010.

The October exhibition will also be used to announce the next phase of Prometheus – and potentially its most significant in terms of the technology's availability both to drivers and within the transport infrastructure. This is because the bulk of the technology is unlikely to be made commercially available before the end of the decade.

This will be later than first hoped when Prometheus was beginning in the late 1980s, but nevertheless is not surprising given the inevitable delays and complications of developing such technologies from basic concepts. For the momentum of Prometheus to be sustained, say the 20 industry participants, not only must the EU be prepared to continue funding – although two-thirds of the project is already financed by the industries involved – but governments and Brussels must make greater progress in defining a co-ordinated transport strategy for Europe.

"Prometheus certainly cannot solve all the transport and traffic problems on its own; technical measures must be accompanied by social concepts that allow the reduction of traffic peaks, improve traffic efficiency and reduce the need for mobility. That includes more flexible shop hours as well as spreading working hours," warns a strategy document on the direction of Prometheus from the end of this year.

A few technologies are already starting to move away from the Prometheus programme, which is seen as strictly non-competitive, collaborative research, towards commercialisation.

These include basic vision enhancement, through the use of ultra-violet light in headlamps and fluorescent road markings, and an emergency call system based on the GSM satellite communications network. Field trials of the ultra-violet system have begun in Sweden, where it has been mainly developed by Volvo and Saab. Similarly, the emergency call system was being tested throughout last year. It allows for the automatic location by emergency services of a crashed vehicle.

The location system illustrates the way in which Prometheus technology can overlap as it can form part of other systems such as satellite-based fleet management and automatic route guidance.

If a final format can be agreed, the system could be in use by 1995.

PEOPLE

Capel's management gets a shake-up

Charles Smedley, head of James Capel's European operations, is stepping down as part of a management shake-up at the top of the London stockbroking arm of HSBC Holdings, Britain's biggest bank.

Smedley, 42, who joined Capel in 1979, has spent most of his career on the international side. He opened Capel's New York office in 1984 and has been chairman of James Capel Europe since 1989.

He said yesterday he was resigning from the firm because he felt he had completed his strategic task.

When he took charge of Capel's Continental European operations it was ranked number eight in the Extel rankings. It is now second only to S G Warburg.

Although the parting is described as "amicable" it is understood that Capel is keen to modernise the management of a side of its business which has not always lived up to expectations in terms of profitability.

Lin Moran, the head of European research, and Angus McNeilage, European sales chief, will take over Smedley's responsibilities.

However, the exodus of old James Capel hands is not all one way.

Philip Gray, 45, who began his City career as a European equity analyst with Capel in 1972, is rejoining his old firm as head of James Capel Asia, covering Hong Kong, Singapore, Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul and Taipei. After leaving Capel he spent 15 years as a fund manager with with GT Management. He is chairman of the Hong Kong Institute of Investment Analysts and was responsible for launching GT's emerging market funds.

Along with Moran, Gray is one of a dozen new directors of a much expanded board of James Capel Holdings, parent of James Capel & Co.

Other members of the new board include David Gray, head of UK research; John Green, head of corporate broking; and Peter Maynard, head of James Capel Inc. The board of James Capel & Co has also more than doubled in size with the appointment of 16 new directors.

Commercial retirement

Sir Martin Jacomb, deputy chairman of Commercial Union, is to retire from the board with effect from 31 December 1993. Sir Martin, who is now 53, has served as a non-executive director since 1984 and as deputy chairman since 1988.

In October it emerged that Jacomb was to retire from his post as deputy chairman at Barclays Bank. He had been with Barclays since 1985.

Jacomb is a director of the Bank of England. He has been chairman of the British Council since 1992.

Wool Board's fresh head

The British Wool Marketing Board has appointed Ian Hartley to take over as managing director when Maurice Grass retires in January.

Hartley takes over at a crucial time for the wool board; this year British farmers lost government subisidies provided for wool production – and at a time of depressed world prices.

Hartley has been deputy managing director of the wool board since 1991 after joining it in 1986 as commercial director of wool growers.

The wool board handles all British fleece wool – around 50m kg a year – worth £35m.

Highland fling for former Premier Brands man

The Scottish Tourist Board has appointed Derek Reid, right, once a prominent figure in the UK food industry, to become its new chief executive. He takes over in mid-January whan Tom Band, who cama from a civil service background, retires.

Reid, 49, an Aberdonian by birth, spent his early career with Cadbury-Schweppes, becoming managing director of Cadbury-Typhoo and then managing director of the group's foods and tea business. In 1986 he was founding member of Premier Brands, which bought out Cadbury-Typhoo. In 1989 Premier Brands was sold to Hillsdown Holdings but Reid stayed on until 1990 to smoothe the transition.

He then returned to Scotland, becoming a director of A I Welders in Inverness, a buy-out from the engineers Verson International. He also bought Farleyer House, an npmarket Perthshire hotel.

His return to full-time executive life – "I feel pretty young and energetic" – comes at a crucial time for the STB. Not only has Scottish tourism been flagging in the recession, but the STB is to be completely restructured.

It will lose to the local enterprise companies its role of giving financial aid to tourism development and will concentrate on marketing. It will also, on government orders, re-locate a large part of its operations from Edinburgh to Inverness, something which a good number of seasoned tourist industry people think a rather bizarre idea.

Reid is not the first person from a private sector background to supervise the STB, but he is the only one with recent experience of running a Highland hotel – and a good number of such hotels have recently ended in receivership.

Reid's answer to the problem, which applies to Scottish tourism in general, is to be much more innovative. He started a bistro in the hotel and opened his doors to children. Farleyer House, from which he will resign as a director, should make a small profit next year.

Switched on at East Midlands

Time was when the route to the top in the electricity sector was a lifetime of work in the industry. The appointment yesterday of Norman Askew as chief executive at East Midlands electricity is the latest in a series of appointments at regional electricity companies, or recs, which show how times have changed since privatisation.

Other recent external recruits to senior rec posts include John Devaney, now chief executive at Eastern Electricity but formerly of the US motor industry, and Andrew Walker who is to succeed David Jones as chief executive of Swalec.

Like Walker, Askew came from TI, where he was in charge of the aerospace division. Unlike him, however, he served a year-long apprenticeship before winning the chief executive's job which he takes up in April. He was appointed managing director last July.

Askew's elavation follows the decision by John Harris to relinquish the role of combined chief executive and chairman. Harris will remain executive chairman.

In stepping up the management ladder, Askew, 51, will assume responsibility for finance and corporate affairs in addition to his current roles. Following the decision by Mike Carus to retira as finance director, the company is expecting to appoint a replacement to report to Askew shortly.

Meanwhile Askew is completing a shake-up of executive responsiblities following the move earlier this year to rationalise the company's 13 cost centres into seven profit centres and to cut £15m of costs annually.

Tha reorganisation of the company also includes cutting out several tiers of management.

"This does not in itself save huge amounts of costs, but it is terribly important in terms of liberalising the business and letting people loose," says Askew.

The company also announced that three associate directors are taking early retirement. They are Stan Errington, (personnel), Graeme Myring (engineering) and Mike Fisher (marketing).

ARTS

Concert

A superb 'Iolanta'

As the orchestral funding fiasco rebounds on the Arts Council, the Royal Philharmonic, least favoured of the three orchestras under review, has boldly announced its new RPO Maryinsky-Kirov Series, under the artistic directorship of the Kirov's dynamic young chief, Valery Gergiev.

Designed as a celebration of the cultural richness of St Petersburg, past and present, the series will have among its many attractions the concert performances of Russian operas little-known in the West; western music associated with the city, and works by contemporary Russian composers. Singers and instrumentalists will appear in a parallel recital series.

The venture was launched at the Royal Albert Hall on Monday night with a deeply moving account of Tchaikovsky's last opera, the one-act *Iolanta* (1892). Nobody who heard this performance will aver again dismiss *Iolanta*. It is a fragile, achingly poignant piece in a category of its own, full of music of rapt beauty. The awakening – and cure – through love of Princess Iolanta, blind from birth, must have had allegorical significance for the tormented composer; equally, optimistic Russians today might find a parallel in their own recent artistic liberation.

As we have come to expect, Gergiev went straight to the heart of the piece: the woodwind introduction, problematic to some ears, emerged fluidly sculpted. Throughout the evening every detail was in place, yet the music remained spontaneous and unfolded freely.

This vocal feast assembled ten Kirov singers on the platform. Galina Gorchakova, enchanting in the title role, caught in her shining soprano all the maidenly innocence. The suitors Robert (Sergey Leiferkus) and Vaudémont (Gegam Grigorian) – Covent Garden's *Onegin* and *Lensky* in the summer – established lively dialogue rare in concert performances. Leiferkus, mellifluous as always, focussed every word, and Grigorian sang ardently: his tenor, strong in the Imperial Russian mould, poured out golden tone, filling the cavernous hall at the climax of his aria.

Bulat Minzhilkiev's imposing bass strode nobly through the arching phrases of the King's aria; the rich-voiced mezzo Larissa Dyadkova sang warmly as Iolanta's nurse Martha. Though the Kirov is above all a great ensemble company, it is hard to resist singling out even the smaller roles: Tatyana Kravtsova and Olga Korzhenskaya, as Iolanta's friends Brigitte and Laura, blended beautifully in their lullaby. Each singer (and the London Choral Society, doing their best with the Russian) gave full meaning to the text – which is just as well, since although almost half the programme book was devoted to a translation, the house lights were, perversely, turned down.

A memorable evening: *Iolanta* features in Gergiev's recording plans for the Philips Kirov Edition, and is now impatiently awaited.

John Allison

Sponsored by Regent Hotel

Cinema/Nigel Andrews

Gothic goes way over the top

Christmas! We recognise it from the blood-dimmed tide of non-Christmassy film fare that washes up on our shores each year from Hollywood. Thanks to the time lag in US-UK release patterns, what the Americans get at Halloween we British get at Yuletide. We leave the front door looking for joy and jollity; we reach the cinema to be greeted by strangely-dressed persons shrieking "Trick or treat?"

Addams Family Values is no treat and could well be investigated under charges of trickery. Soon after seeing the film I looked up the word "comedy" in a dictionary. It says (Shorter OED), "A light and amusing stage-play" – or by extension film – "with a happy conclusion to its plot." Even allowing for licensed exceptions to this such as black comedy and horror comedy, what do we make of a movie that dons floor-length Gothic garb, assembles a cast of overactive, in-your-face ghouls, cracks one unfunny gag after another and deploys an interminable series of near-homicidal set pieces.

These range from a gold-digging black-widow nanny (Joan Cusack), out to ensnare and then snuff out Uncle Fester, to the two children, her charges, who keep trying to murder their new baby brother. (Just what we in Britain need: a comedy about infanticidal pre-teeners.)

I confess I hated the first *Addams* film even though millions, to judge by box-office receipts, did not. I suspect it won its audiences, like *Ghostbusters* before it, by jumping on them from a great height. Large with OTT acting, special effects and subtlety-bypass decor, these movies come down on the viewer like collapsing scenery. You have to laugh: either you are too dazed to do anything else or you feel that more scenery will be dropped on you if you do not.

What astonishes us about *Addams Family Values* is that it did not attract a script doctor during pre-production. The film does not know when to stop, has little idea of how to begin, and moves forward by a process of "Quick, who's got the next gimmick?" jolts and nudges.

Paul Rudnik's script and Barry Sonnenfeld's direction take the over-obvious and then rake it with spotlights. It is not enough for "Thing", the dismembered hand, to put in the odd surprise appearance on someone's shoulder. He must dance, somersault and skateboard. It is not enough for Gomez and Morticia to do a slinky-camp tango in a cellar restaurant. They must stomp, somersault and literally set the place on fire. Oh the sadness of such frenzy. Good spoof Gothic, as the late Mr Vincent Price taught us, needs as much subtlety and poetry as good True Gothic.

Santa Claus should give the cast, crew and director a free pass to an aesthetic detox clinic. Talented troupers like Anjelica Huston and Raul Julia can then get the whole series and its spell out of their system and return to making good grown-up films or even good children's films. Did you ever see Miss Huston in *The Witches* or *Prizzi's Honour*? They are both on TV over Christmas: save your Addams admission money.

Or alternatively give it to the Actors In Crisis fund. Another example this week is Jeff Bridges, starring in another un-Christmassy film called *American Heart*. Shoulder-long hair, industrial-strength chin stubble and viva-Zapata moustache announce "character": just as a funny accent and portly gait announced "character" in Bridges's last role, the killer in *The Vanishing*. These are the signs of a man passing from his handsome lead heyday into that grim half-world where Tinseltown no longer offers easy-option starring roles. So the actor starts exercising

ADDAMS FAMILY VALUES (PG)
Barry Sonnenfeld

AMERICAN HEART (15)
Martin Bell

THE SECRET ADVENTURES OF TOM THUMB (12)
Dave Borthwick

OZU SEASON

hitherto unused acting muscles in a bid to re-qualify as a serious thespian.

British ex-documentarist Martin Bell here places a fiction filter over the clear-eyed camera-sense he brought to his raw, moving portrait of Seattle low life, *Streetwise*. Staying in Seattle but swapping documentary for drama in *this*, he and writer Peter Silverman push ex-convict Jeff Bridges into a DIY rehabilitation programme involving manual labour (window-cleaning), dreams of flight to Alaska, love (Lucinda Jenney) and coping with a mother-deprived, crime-prone teenage son (Edward Furlong).

For a lost hero searching for himself, this is a busy programme. But then movies like this have their shopping lists of important Themes, and we the audience must sit in the trolley while the director wheels us from shelf to shelf.

We are never caught up in the expedition and, like many shopping trips, this one ends in tears at the check-out counter. Plots collide, tempers fray and the film's makers find they have not brought enough pay-offs to cover all the goods. (How *does* the wounded hero make it to the ferry? What *will* he and his son do in Alaska?). As for the film's star, one wishes there were a Santa in the store. Old Cottonwool could pull Mr Bridges out from the queue, dust him down and tell him to drop the over anxious chameleonism and go back to being, at least in part, himself.

For your next Christmas treat welcome to The Secret *Adventures Of Tom Thumb*. This does for the well-loved fable... well, let us just say that it does for the well-loved fable. Wielding blood, shadows, nasty insects, hypodermics and pixilated movement – even the humans in this claymation-plus-live-action film move in eerie stop-motion – the Bristol animation team "bolexbrothers" create a fairy tale from hell.

But allowing for cries of seasonal dismay, this is oddly impressive. Once again a Halloween movie, this time homemade, has hit the screens a month late. And the redfaced BBC might prefer that it had not hit them at all. Having funded the project, Auntie then shelved it in horror until the film got loose and started to win festival prizes. With its blend of Sci-Fi and lower-depths squalor, with its foetus-like hero moving through landscapes wriggling with the surreal, it packs a horrible, fascinating punch: as if Hieronymus Bosch had taken over *Jackanory*.

To calm yourself down, you might visit the Yasujiro Ozu season at London's Renoir. Six cooling masterworks from the Japanese director of *Tokyo Story*, *Late Spring* and An *Autumn Afternoon*. Things do not so much "happen" in Ozu films as exist in a state of suspended dramatic animation. The human heartbeat is there, but anyone used to Addams Family films had better take a stethoscope. It beats as much in the scenes of plain domestic realism (Kitchen Sink goes Buddhist) as in the occasional flurry of high drama like a dropped rice bowl, a visit from Granny, a bad school report. These films *will* do for Christmas, especially if you like your Christmases peaceful. Less, in the hands of a master, is so much more.

Theatre

'Jane Eyre' as Brontë puppet

Among the many great novels of the 19th century, *Jane Eyre* is one of the few that stands out like a myth. The austere, unpretty, uncompromising governess Jane Eyre and her haunted employer Rochester with his hidden past: these two are archetypes for all time. As I watched Fay Weldon's stage adaptation, currently at the Playhouse, I realised how much Charlotte Brontë's novel had influenced others – Daphne du Maurier's *Rebecca*, of course; and, more subtly, Henry James's *Turn of the Screw*. Come to think of it, *Jane Eyre* is even a forerunner of the Diana-and-Charles story: innocent teenage girl involved in educating the young is irresistibly drawn to moody mysterious hero with guilty secret; on the brink of marrying him, she stumbles on the secret other woman in his life...

As long as it focuses on the changing relationship of Jane and Rochester this adaptation has plenty going for it. Neither Alexandra Mathie (Jane) nor Tim Pigott-Smith (Rochester) is ideal – she is too self-consciously pious, with a bad attack of nobility about the nostrils; he too much the angry lout – but the story of their surprising attraction is alive. And Fay Weldon's script is at its most sensitive, intelligent and faithful while it keeps them in its sights.

Elsewhere, however, this is a dire and coarse evening. Weldon has had the idea of telling Jane's early life, not directly as in the novel, but obliquely: (a) Jane narrates it to her pupil, Adèle (b) Adèle helps to act it out, holding up a "Jane Eyre" doll and ventriloquising her lines. The core of the novel lies in the unrepentant first-person account of Jane's anger as a child; Weldon has boiled this away. Later, she reduces the St John Rivers episode to its most melodramatic and sexist ingredients. This novel deals with the fine and brave feelings that make its heroine unusual – a kind of rebel; but Weldon has so cheapened everything that we are surprised that Jane is as polite as she is.

More silly yet, Weldon keeps bringing on the Brontës themselves to comment on the story to one another. OK, yes, we do think of all the Brontës at Haworth whenever we pick up one of their books – but we forget them once we start reading. *Jane Eyre* in particular is an all-absorbing world. Not so here: Weldon even puts lines from the book into the Brontës' mouths. Thus it is not Jane Eyre but *Anne* Brontë who speaks the great lines "Women feel just as men feel... they suffer from too rigid a restraint, too absolute a stagnation..." In context, this actually robs the words of their true feminist impact; and the whole device weakens Jane by making her look like a Brontë puppet.

Most of the supporting players take several roles. Thus Jane Campion plays Emily Brontë, Mrs Rochester, Blanche Ingram, Céline, Mrs Reed and Miss Scratchard; and she is perfectly dreadful in all of them – crude, exaggerated, superficial. Almost everyone onstage keeps reminding you that they are Actors Acting. This production comes to us from Theatr Clwyd and Thorndike Theatre Productions, and is directed by Helena Kaut-Howson, who must take responsibility for all this. The ludicrously melodramatic music would grace a Hammer Horror production. There are elements of Gothick horror and of feminist protest in *Jane Eyre*, but they are worked into a texture more romantically poetic, more morally subtle, and more emotionally poignant than Weldon & Co. know how to handle.

Tim Pigott-Smith and Alexandra Mathie as Mr Rochester and Jane in Fay Weldon's adaptation at The Playhouse

Alastair Macaulay

At the Playhouse Theatre, WC2, 071-839 4401

Theatre

'The Good Natur'd Man'

The Orange Tree in Richmond is the pleasantest of London's admirable array of small theatres. Whereas the Gate and the Bush tend to specialise in passionate intensity, the Orange Tree has a lighter touch. And so it is with *The Good Natur'd Man* which makes a natural complement to the same author's *She Stoops to Conquer*, still running in the West End.

Oliver Goldsmith wrote *The Good Natur'd Man* around 1767, about five years before *She Stoops*. The former is not nearly as funny nor as mature as the latter, but it is is still, in parts, a very elegant piece of writing and what the two pieces have in common is an abundance of good nature. This is not incompatible with satire: it simply illustrates the point that you do not have to shout in order to be heard.

The Good Natur'd Man should really be called *The Good Natur'd Woman*. For the male hero, aptly named Honeywood, carries good nature to the point of naivete and beyond. There is a splendid female by the name of Miss Richland who bails him out.

Played here by Claire Rushbrook, Miss Richland has all the desirable attributes: looks, sense, money and good nature to boot. It is not the largest part in the play, but it is the key. Ms Rushbrook (a name that might have been invented by Goldsmith) never shows off, not even stooping to effortless superiority. She just stands there, holds the ground, and is superb.

The plot is hard to follow, even when you have done your homework. A subplot about a potential elopement to Scotland is unnecessary except to give the play a decent length. A man called Croaker seems impossible in the written script, but in practice, given a sprightly performance by Will Knightley, he is a distinctly recognisable figure who simply changes his mind with each new piece of hearsay.

Some of the dialogue is delightful. Croaker had a friend named Dick Doleful who "before he made away with himself used to say 'Croaker rhymes with joker', so we used to laugh". Mrs Croaker, by contrast, is a woman described as "all laughs and no jokes". Clearly there are tensions beneath the surface.

There is also some tenderness, as when the good natur'd man and Miss Richland talk about how they first met at the French Ambassador's. Honeywood asked the plainest woman in the room to dance because he felt sorry for her: Miss Richland noticed and danced with him the next night. Some social comment, too: catch a passing reference to a man called Lord Neverout, who might be still with us today.

Anthony Cornish who produced the piece in New York last year, directs. Here, it is an example of the fringe playing to near perfection.

Malcolm Rutherford

Orange Tree, Richmond until January 29. (081) 940 3633

'Punchbag' and 'Jamais Vu'

Punchbag, a new play by Robert Llewellyn, is set in a women's self-defence class. The Hampstead stage is given over to the gym in Julian McGowan's neat design, with encouraging slogans – Assess; React; Terminate – around the walls.

We, the audience, are the students, and a strangely passive lot, too, unmoved by the extraordinary courtship routines taken place around us. They involve instructor Lloyd, his side-kick Peter, who, as the "punchbag", spends most of the play dressed like a plastic ladybird in protective clothing, and two of the women honing up their defence skills, spikey Jane and soft Polly.

It is billed as a "physical comedy", and there can be no complaints about the physical as the four actors fling themselves across the stage with frightening force and agility at Glen Walford's direction. The laughs come if you enjoy seeing women kick men in the groin; there is little doubt who the winners are here.

Robert Llewellyn's play bears similarities to those Victorian moral tales which were expected to pep up the poor. In the first act we learn why women must be physically prepared to ward off fallen man; in the second, why there is little good in getting the body in shape if morals remain lax. At the end comes the sanctimonious punch line – to be really acceptable men must learn to say no.

The characters are lightly sketched but the acting is so lively that you can forget the sermon and enjoy the fights. Sophie Heyman is excellent as the girl who likes to say yes; Buffy Davis is credible as the susceptible nice one, as is Eamonn Walker as the black leader burdened with sex appeal and Andy Serkis, as the wimp.

★

Ken Campbell walks on to the stage of the Vaudeville clutching the Evening Standard Comedy of the Year award. "You can make your own mind up now", he says, placing it alongside the models of Munch's "Scream" and a sexually arect Pacific Islander which comprise the minimalist set for his one man monologue, *Jamais Vu*.

But can you make up your own mind? Over the next 2½ hours Campbell makes the mind a very confusing place. His own embarks from Gant's Hill Library on a surreal journey, embracing John Birt clones, the Duke of Edinburgh and the inhabitants of Tanna, who regard the Duke as a God.

On the way he befriends oddballs, from a drop out barrister happy in cardboard city to a resident of the Uxbridge Secure Unit, and he takes seriously their unreliable contributions to his convoluted ramble.

Campbell is not for me. His comic personality is too close to the crazies he picks up to be relaxing. He is spot on at reproducing the scientific jargon which drives on their fantasies, but this is disturbing rather than witty. Sometimes, as in his imaginative conversations with Richard Eyre, director of the National Theatre (where *Jamais Vu* started) he sounds like Frankie Howerd on speed; sometimes he descends to desperate clowning, attaching sink plungers to his bald head.

Campbell has a sympathetic personality and there is the occasional sharp one-liner. But he expects much of the audience in forcing it to linger so long to discover whether he can tie his imaginative meanderings into a coherent climax.

Antony Thorncroft

INTERNATIONAL ARTS GUIDE

BARCELONA

Gran Teatre del Liceu Edith Gruberova stars in Gian-Carlo del Monaco's Zurich production of La fille du régiment tomorrow, Sat, next Mon, Thurs, Fri and Sun. Cecilia Bartoli gives a song recital next Wed (tel 412 3532 fax 412 1198)

BOLOGNA

Teatro Communale Tonight, Sun, next Wed: Riccardo Chailly conducts Lluis Pasqual's production of Puccini's Trittico. Tomorrow, Sat: Chailly conducts Mahler's Third Symphony, with mezzo soloist Hanna Schwarz. Mon: Leif Ove Andsnes piano recital (No telephone bookings accepted. For information, call 051-529999)

FLORENCE

Teatro Communale Tomorrow, Sat, Sun: Semyon Bychkov conducts orchestral works by Dutilleux, Hindemith and Brahms. Dec 19 at Teatro Verdi: first of four performances of The Nutcracker (055-277 9236)

GENOA

Teatro Carlo Felice The 1993-4 opera season opens tonight with Giorgio Strehler's Milan production of Don Giovanni conducted by Yoram David, with a cast led by Ferruccio Furlanetto, Cecilia Gasdia and Laurence Dale. Repeated with changing casts on Dec 11, 12, 15, 17, 18, 19 and 21 (010-589329)

LONDON

THEATRE

● Cabaret: a new production of one of the great modern musicals, with Jane Horrocks as Sally Bowles and Alan Cummings as Emcee at the Kit Kat Club. Sam Mendes' production promises to turn the theatre into a cabaret setting, with part of the stalls audience seated at nightclub-style tables. Opens tonight (Donmar Warehouse 071-867 1150)

● The School for Wives: Ian McDiarmid plays Arnolphe, Molière's most celebrated role, in this rare London revival of one of the finest and funniest French plays. Just opened (Almeida 071-359 4404)

● Piaf: Peter Hall directs a new production of Pam Gems' play with music, starring Elaine Page. Now in previews, opens Mon (Piccadilly 071-867 1118)

● Macbeth: Derek Jacobi returns to the Royal Shakespeare Company in the title role of a new production directed by Adrian Noble. Starts previewing tonight, opens next Thurs (Barbican 071-638 8891)

● Wildest Dreams: for the first time, the RSC presents the London premiere of a play by Alan Ayckbourn, directed by the author. First seen in Scarborough in 1991, the play is billed as a dark comedy. Now in previews, opens next Tues in The Pit (Barbican 071-638 8891)

● Me and Mamie O'Rourke: Dawn French and Jennifer Saunders star in Mary Agnes Donoghue's new comedy about close friends, already a hit in New York. Now in previews, opens next Wed (Strand 071-930 8800)

● Angels in America: the two parts of Tony Kushner's epic contemporary drama are in repertory with Brecht's Mother Courage in the Cottesloe. The Olivier has David Hare's new play about the Labour Party, The Absence of War, and Alan Bennett's acclaimed stage adaptation of The Wind In the Willows (National 071-928 2252)

● Moonlight: Ian Holm and Anna Massey in Harold Pinter's new play about a sour civil servant who rages against his approaching death, unmourned by his family (Comedy 071-867 1045)

OPERA/DANCE

Covent Garden The Royal Opera has Martin Duncan's production of Die Zauberflöte tonight and Sat, and Tosca with Anna Tomowa-Sintow and Sergei Leiferkus tomorrow, next Mon, Thurs and Sat. The Royal Ballet's Christmas repertory is Peter Wright's production of Nutcracker and a double bill of Ashton and Balanchine choreographies (071-240 1066)

Coliseum ENO repertory for the next two weeks consists of Die Fledermaus, Figaro's Wedding and Tim Albery's production of Lohengrin. David Pountney's new production of Smetana's The Two Widows opens on Dec 20 (071-836 3161)

CONCERTS

South Bank Centre Tonight, Mon: Yevgeny Svetlanov conducts Philharmonia Orchestra in two programmes of Rakhmaninov and Tchaikovsky. Tomorrow: Andrew Davis conducts BBCSO in Elgar, Vaughan Williams and Holst. Tomorrow (QEH): John Eliot Gardiner conducts concert performance of L'incoronazione di Poppea. Sun: Mark Wigglesworth conducts LPO in Birtwistle, Mozart and Mahler. Tues: Tallis Scholars sing Josquin and others. Next Wed and Sun: Mariss Jansons conducts two programmes with LPO. Next Thurs: Lorin Maazel conducts Verdi's Requiem (071-928 8800)

Barbican Tonight: Colin Davis conducts second part of Berlioz's Les Troyens, followed on Sun by a complete performance, spread over afternoon and evening. Tues: Richard Hickox conducts Messiah. Next Thurs, Fri, Sat: Christmas music with the LSO (071-638 8891)

Wigmore Hall Sat: Leif Ove Andsnes piano recital. Next Tues: Sumi Jo (071-935 2141)

MADRID

Auditorio Nacional de Musica Tonight: Seiji Ozawa conducts Boston Symphony Orchestra in works by Beethoven and Berlioz. Tomorrow, Sat and Sun morning: Kazimierz Kord conducts Spanish National Orchestra in Beethoven, Szymanowski and Shostakovich, with violin soloist Konstanty Kulka (01-337 0100)

Teatro Lirico La Zarzuela Tonight, tomorrow, Sat, Sun: Compania Nacional de Danza's in choreographies by Duato and Kylian. Dec 16-22: works by Forsythe, Duato and Kylian (01-429 8225)

MILAN

Teatro alla Scala The opening production of the season is Spontini's La Vestale, conducted by Riccardo Muti and staged by Liliana Cavani (Dec 10, 12, 15, 17, 19, 21 and 23). Seiji Ozawa conducts Boston Symphony Orchestra on Mon, and the Nureyev production of Nutcracker is revived on Tues for eight performances (02-7200 3744)

NAPLES

Teatro San Carlo The 1993-4 opera season opens tomorrow with Rossini's Mosè in Egitto, conducted by Salvatore Accardo and staged by Hugo de Ana, with a cast including Mariella Devia, Roberto Scandiuzzi and Rockwell Blake. Repeated Dec 12, 14, 17, 19, 22 (081-797 2331)

PRAGUE

CONCERTS

Vaclav Neumann conducts Czech Philharmonic Orchestra in Dvorak's Ninth Symphony on Sat morning in Dvorak Hall. There is a programme of piano trios on Mon and a concert by Czech Quintet next Wed (02-268 0111). Seiji Ozawa and the Boston Symphony Orchestra end their European tour next Thurs with a gala concert in Smetana Hall (02-232 2501)

OPERA

Repertory at National Theatre consists of La boheme, Lucia di Lammermoor, Don Carlo, The Makropoulos Case and The Kiss. A new production of Dvorak's The Jacobin opens on Dec 21 (02-205364). Estates Theatre has Die Zauberflöte tonight and Don Giovanni next Wed (02-228658). Prague State Opera has Madama Butterfly, Il trovatore, Rigoletto, La traviata and Tannhäuser (02-265353)

ROME

Accademia di Santa Cecilia The next two weeks of concerts are conducted by Wolfgang Sawallisch. Sun, Mon, Tues: Mendelssohn programme. Dec 18, 19, 20, 21: symphonies by Mozart and Dvorak (06-678 0742)

Teatro Olimpico Giuseppe Scoteso gives tonight's piano recital. Cologne Chamber Orchestra plays baroque concertos and motets next Thurs (06-320 1752)

Università La Sapienza Kostantin Lifshits gives a piano recital on Sat. Dec 18: Harlem Spiritual Ensemble (06-361 0051)

TURIN

Teatro Regio The 1993-4 season opens tonight with Luca Ronconi's Italian-language production of The Makropoulos Case conducted by Pinchas Steinberg, with Raina Kabaivanska as Emilia Marty. Repeated Dec 12, 14, 15, 17, 18, 19, 21 and 23 (011-881 5214)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

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MONDAY
Super Channel: FT Reports 1230
TUESDAY
Super Channel: West of Moscow 1230
Euronews: FT Reports 0745, 1315, 1545, 1845, 2345
WEDNESDAY
Super Channel: FT Reports 1230
THURSDAY
Super Channel: West of Moscow 1230; FT Reports 2130
Euronews 0745, 1315, 1545, 1645
FRIDAY
Super Channel: FT Reports 1230
Sky News: FT Reports 2030
SATURDAY
Sky News: 0330; 1330
SUNDAY
Super Channel: FT Reports 2230
Sky News: FT Reports 1730; 0430

Passion was the lesser part of valour

BOOK REVIEW

THE LAUREL AND THE IVY – The Story of Charles Stewart Parnell and Irish Nationalism
By Robert Kee
Hamish Hamilton, £20, 659 pages

Charles Stewart Parnell was either nervous about covering his tracks or a master of cool detachment. From a hotel in Paris – just as British prime minister William Gladstone appeared on the brink of embracing Home Rule for Ireland – the Irish nationalist leader wrote three letters to his secret lover, Mrs Katharine O'Shea.

They were, says Robert Kee in his biography of Parnell, matter-of-fact; obsessed with "his cold, his vest and the taking of Turkish baths". Yet Parnell was in an "extraordinary" situation. On temporary release from prison for his nephew's funeral in 1882, "he had, only a few days before, been reunited for a day and a night with the woman he loved so passionately that it seemed at times as if nothing else would ever be of importance to him again". Their two-month-old child, whom he had just seen for the first time, was desperately ill and might die while he was away.

More than a century later, such self-confidence and ability to look beyond the immediate political fray is sorely needed, as Albert Reynolds and John Major, the Irish and British prime ministers, discuss the future of the six counties that make up Northern Ireland.

Parnell's great achievement was to give the majority of Irish people a sense of unity and purposefulness that eventually propelled the larger portion of the country towards independence. But his story is one of tragedy – for him personally, when his career crashed amid the scandal of his affair with Mrs O'Shea, and for Ireland, because never was the time more propitious for a relatively peaceful resolution of the Irish "problem" than in the 1880s.

Parnell's legacy was an intensified defensiveness among northern Ireland Protestants – few of whom were nationalists – that has scarcely diminished, and the mobilisation of supporters of Ulster's union with the UK. Nationalists now are split between supporters of IRA paramilitaries and of constitutional politics; between those who overtly want unification and those, particularly in the south, who regard it as financially and politically impossible.

Parnell's strategy was two-pronged. First, he built up an Irish Home Rule party at Westminster that, because of its size and expertise in obstructionist tactics, had to be heard by Liberal and Tory governments. Second, he knitted the strands of Irish nationalism. He acquiesced to the violent tactics of Fenian extremists but without explicitly supporting them. He combined land reform and nationalist movements and often fudged the meaning of "home rule" – whether it meant an Irish parliament subordinate to Westminster or a clean break with the UK. He was imprisoned by the British as part of their efforts to maintain order.

Admittedly Parnell's task in respect of Ulster was easier than that of his modern counterparts. Though there were riots in Belfast in protest at possible home rule, the nine counties then comprising the province were less overwhelmingly unionist. And there were 400,000 Protestants living elsewhere in Ireland – including Parnell himself – which strengthened the argument for treating Ireland as a whole.

Nevertheless, Parnell's career was a balancing act requiring considerable astuteness. A setback was the murder by nationalist extremists of the chief secretary to Ireland, Lord Frederick Cavendish, and his under-secretary, T H Burke, in Dublin's Phoenix Park soon after Parnell's return from Paris. The revulsion in Britain delayed debate on home rule.

But just as Major recently denied talking to the IRA while contacts were continuing, Parnell had a channel of private communication with Gladstone via Mrs O'Shea, who wrote copious letters to Downing Street.

A more serious problem than the killings was his private life. Kee's book tests carefully many of the myths surrounding Parnell and Mrs O'Shea. (Did a rose really fall from her bodice for him to rescue on their first meeting? Kee is not convinced. Certainly she was never called "Kitty" by friends, as many suppose.) But he does not disappoint, providing a racy account of flights via fire escapes and the circumstantial evidence to suggest that her husband – Captain William O'Shea, also an Irish nationalist MP – knew for many years of the relationship. Kee's description of Parnell is of a character bordering on the improbable: incredibly he despised the colour green, used in nationalist emblems.

Such was Parnell's affection for Mrs O'Shea, believes Kee, that he was eager for a deal with Gladstone so he could retire to Eltham, south London, where she lived near her elderly Aunt Ben, who was not allowed to know of the affair lest she should cut off her niece from a rich inheritance.

When Captain O'Shea divorced his wife after Aunt Ben's death, all these deceptions could no longer be maintained. Parnell misjudged the scale of outrage, particularly in predominantly Catholic Ireland, and underestimated his own fallibility as a politician. In the tense months that followed, his party split and the momentum behind its cause was lost. A year later Parnell died of a coronary thrombosis.

Where Kee fails is in providing an assessment of Parnell's place in Irish history. Even without his sudden downfall, the course of events might have been little changed. Opposition to home rule in the Commons and Lords was deep-seated. Parnell seemed prepared to accept an Irish parliament with limited powers that would have been unacceptable to many Irish. Thirty years and much bloodshed followed before the Irish free state was established. Northern Ireland is still gripped by near civil war. There never seems an ideal time for the Irish to determine their fate peacefully.

Ralph Atkins

ECONOMIC VIEWPOINT

The two-way switch in world economy

By Samuel Brittan

The most valuable guess about the impact of the Uruguay agreement is the one made by Gatt's own secretariat: that it will add nearly $750bn to world merchandise trade by around the year 2005. This is apart from the benefit to trade in services which no one seems able to quantify.

The trade gain should be equivalent to an increase of 12 per cent, compared with what that trade might otherwise have been. Although speculative, the estimate is less unreliable than the attempts to translate the gain into changes in economic welfare, which is what the headline figures – which politicians quote without understanding – mostly try to do.

For the moment, a Gatt agreement's most important effect will be on confidence. It will be a green light to firms hesitating about investment projects which depend upon products crossing national frontiers. It will also stop the damage that a blow to confidence would inflict on a sluggish world economy.

The hope in the longer run must be, however, that it will restore some impetus to world trade. The need for this is shown in the accompanying table prepared by an Oxford economist, Peter Sinclair, in an article unfortunately buried at the end of the Autumn 1993 *Oxford Review of Economic Policy* (published by Oxford University Press).

In the table, export values have been deflated by a general price index to put them into real terms. The usual practice of deflating them by export prices is misleading as makers of traded products tend to experience faster productivity increases than other businesses; as a consequence their goods rise less in price.

The table shows that, until about 1980, it was the rule that world trade grew a great deal faster than output. But in the subsequent decade that rule was reversed and trade grew less than output in all the members of the Group of Seven, except France and Germany. The general conclusion applies even if oil is taken out of the figures or if intra-EC trade is excluded.

Sinclair attributes a great deal of the lost trade dynamism to policy. The gaps between Gatt rounds have grown larger. It is now, for instance, 20 years since the Tokyo Round was concluded. Since then agricultural protection has been increased; there are more non-tariff barriers; and some regional groups like the EC may have diverted trade from inter-continental channels.

The author also puts some of the blame on so-called new trade theories among academics. These suggest that, when firms have market power, countries may gain by intervening on their behalf. I suspect these theories have been taken up only as rationalisations by administrations heavily lobbied by producers. Sinclair tackles these theories head-on and shows that, even under the assumed trading conditions, there may actually be gains from freer trade.

Meanwhile, warnings keep landing on my desk from analysts who believe that the next European upturn will be even more disappointing for jobs than the upturn of the 1980s, and will put even more pressure on the pay of less skilled workers. In some versions, the threat looks like a return visit of the "yellow peril" from the east which so terrified Europeans and Americans at the beginning of the 20th century.

There is, indeed, a profound two-way change taking place in the world economy which is most convincingly summarised – without any yellow peril nonsense – by Richard Brown and DeAnne Julius in the first 1993 prize-winning essay in the *Amex Bank Review*, also published by Oxford University Press.

One change is a big shift in the geographical centre of gravity away from the traditionally rich countries that make up the 24-nation OECD. The shift has been disguised by the habit of comparing GDP at current exchange rates, which undervalue the output of the hitherto less-advanced countries. On the conventional basis, the combined GDP of the OECD countries is 2.7 times as high as that of the rest of the world. But, using estimates based on purchasing power parity instead, it is only 1.1 times as high.

The other associated change is a steep decline in the share of manufacturing in total employment in the OECD countries. In the US, the manufacturing share peaked as early as 1920. Countries such as Germany – which is a real outlier with a manufacturing share of 32 per cent – face a really steep decline in this sector. The authors expect the manufacturing proportion to reach 10 per cent or less in most OECD countries within the next 30 years. In so doing, it will be following the path of decline traced by agriculture over the past 50 years.

'In industrial policy, we ask politicians to do the difficult thing: nothing!'

The authors see nothing horrifying in these trends. Service workers are not just 16-year-olds flipping hamburgers at McDonald's. Managers, sales personnel, brain-surgeons and bankers are all in the service sector. A recent survey in Manchester found that employees in the leisure and media sectors were the highest paid and those in manufacturing the lowest. Because of the difficulty of measuring service output, the rate of inflation in this sector is exaggerated and its productivity growth greatly understated.

Manufacturing companies in the west will face competing options. They can continue to compete on cost if they switch production to developing countries. Or they can seek high value-added niches with a big service component. Either way there will be a shift of employment to services. It does not take great genius to predict great pressure to subsidise or protect the manufacturing sector. But, the authors remark, it would be "a critical mistake to yield. The agricultural experience shows that such a reaction would be costly and ultimately fruitless."

They would prefer western governments to concentrate on promoting free trade in services and still greater freedom for international investment. They make the conventional plea for European and American governments to "focus on people" and upgrade and broaden education and training to improve performance in the newer sectors. But "in the traditional areas of industrial policy and direct support to industry, we are asking politicians to do what they find most difficult: nothing!"

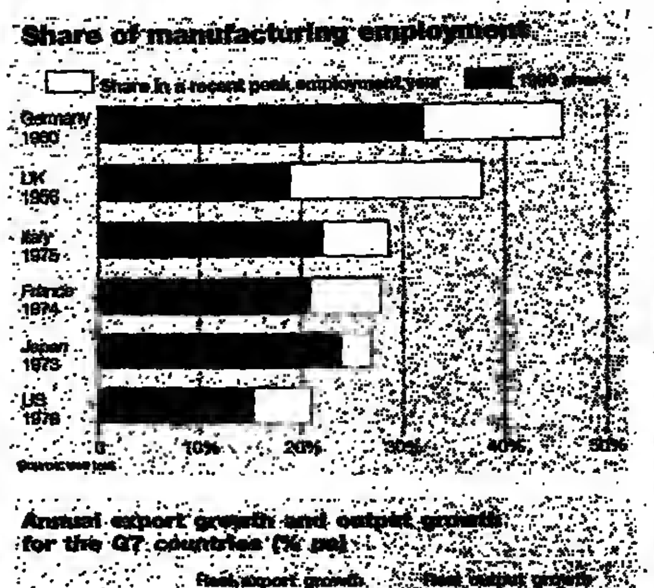
There is, however, more to say. A problem is created by the rapidly increasing differentials in earnings between high- and low-paid workers. While this has been most evident in the US and Britain, the protection offered by continental institutions of the Social Chapter kind is crumbling. Many parts of the welfare state are being trimmed in Sweden; and, further south, nationwide wage agreements and minimum wages are being seen as obstacles to employment.

International studies, such as those summarised in the 1993 *OECD Review of Industrial Policy*, suggest that technological change has hitherto been more important in creating these labour market pressures than either Reagan-Thatcher policies or international trade pressures. But whatever may have happened in the past, it is likely that imports from developing or former communist countries will in future depress the market-clearing levels of pay among the least skilled or least adaptable groups.

If trade opens up the prospect of increasing the national income, the losses of particular groups are a distributional problem and cannot be shrugged off by references to training.

The challenge is to find non-vindictive ways of redistributing income towards the losers; it is to find methods of redistribution that do not assume that all income belongs to the state; it is to find methods of redistribution which do not destroy the gains from trade and technology, while compensating those who would otherwise lose out from change. The statement of the problem – which is still far from recognised – comes before the answers.

Share of manufacturing employment



Annual export growth and output growth for the G7 countries (% pa)

	Real export growth		Real output growth	
	1970-80	1980-90	1970-80	1980-90
Canada	7.37	1.82	4.59	[illegible]
France	8.86	2.88	[illegible]	[illegible]
Germany	5.29	3.54	2.89	2.15
Italy	7.43	1.26	3.76	2.22
Japan	7.31	1.80	4.53	[illegible]
UK	4.88	1.79	2.00	[illegible]
US	9.99	1.38	3.82	[illegible]

Source: Sinclair, Oxford Review of Economic Policy

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Help BT to compete abroad

From Mr Peter Hain MP.

Sir, Like most other commentators, your editorial (Euro Telecom Alliances, December 8) on the Franco-German telecoms alliance, missed the key strategic point for Britain.

This is whether a British company will be one of the big four or five operators in international telecommunications – effectively that means whether BT will, since it alone has the necessary critical mass.

That objective should be the driving one for telecommunications policy. It would have enormous benefits for British industry at large, enabling a pace-setting role in the fast-growing area of information technology, which will be so vital to our future economic growth.

The problem is that, as in so many areas of industry, this government does not have a telecommunications policy. Its stance is to leave it to the invisible hand of market forces. So much so, that competitors to BT are positively favoured (for example being allowed to carry the highly lucrative combination of telephony and entertainment which BT is not).

As part of this, American carriers such as AT&T, Sprint and the regional Bells are virtually being incited by the government to clean up the British market, while BT does not have reciprocal entry rights to the US market. Similarly, in Europe, the link between Deutsche Telekom, France Telecom and possibly AT&T is going ahead while BT has its hands tied behind its back, fighting off rigged competition in its backyard.

Our concern should be to put Britain where it once was (as inventors of fibre optics for instance) in the leadership of international telecommunications. The government's position is typically short-sighted. If its current non-policy persists, British industry will once again lose out.

Peter Hain,
House of Commons,
Westminster,
London SW1A 0AA

Indexation alteration iniquitous

From Mr John Marsh

Sir, Mr Clarke's proposed change to the indexation of the cost of investments which are sold at a loss (or small profit) is a nonsense, if not iniquitous.

In the case of an investor with, let us say, a net chargeable gain of £10,000, made up of a profit of £15,000 and a loss of £5,000, why should he be allowed to increase the cost of the profitable investment but not that of the unprofitable one? Wherein lieth the difference, pray?

Being a pessimist by nature, I don't suppose he can be persuaded to change his mind, but might I suggest to him that at the very least, the book cost of all investments held at November 30 1993 should be revalued to the November RPI level, whether they are eventually sold at a profit or a loss? This would eliminate the element of retrospectivity in his proposal, which is thoroughly unfair, particularly to those who may have held an investment for many years.

John Marsh,
6 Heatherdale Close,
Kingston upon Thames,
Surrey KT2 7SU.

Private finance before London bonds

From Mr Francisco L Borges.

Sir, As a US market leader in insuring municipal bonds, my company would endorse the comments made in your leader "A mega-bond of London" (November 29) that the issue of bonds secured by future revenue streams could be the answer to the capital's transport infrastructure problems.

However, our experience suggests that government should recognise that in most cases public finance up front would be required to attract private investors. Bond finance could come in after one to three years of operation when a track record of revenue streams and a credit-rating for the issuing body had been established.

A reasonable number of "live" projects are required to develop a senior bond market for long-term debt. Therefore the announcements in the chancellor's Budget on the development of the private finance initiative are a welcome step in the right direction, although a firm foundation for the ground-rules now needs to be established.

Francisco L Borges,
managing director,
public finance,
Financial Guaranty Insurance Company,
115 Broadway,
New York, NY 10006

Japan's nuclear recycling programme nears goal

From Mr T Matsunaga.

Sir, I would like to express my comments on your collection of letters entitled "Thorp: surplus in dispute" (November 23).

Consumption of fossil energy is causing worldwide environmental problems and drying up energy resources. Petroleum is expected to run out around the middle of the 21st century. Nuclear energy is one of the most promising alternatives. However, uranium is also limited.

At this moment reasonably assured resources of uranium are only about 2.32m tonnes, which will be consumed in between 30 and 40 years under current demand, with the direct disposal of spent fuel. Uranium with direct disposal cannot be a major energy resource for the 21st century.

Utilisation rates of uranium can be considerably increased by using plutonium in light water reactors as MOX fuel. Furthermore, about 60 times the utilisation rate of uranium can be achieved by recycling it in fast-breeder reactors.

Plutonium utilisation systems, mainly in fast-breeder reactors, require high standard technologies and a long development period. We have been doing our best to realise plutonium utilisation since it became the basis of our nuclear energy policy in the early 1960s. In this process, we executed reprocessing contracts with British Nuclear Fuels prior to our construction of a commercial reprocessing facility in Japan.

A forecast of supply and demand for plutonium in Japan issued by the advisory committee of the Atomic Energy Commission in August 1991 foresees that by around 2010, overseas and domestic (under construction) reprocessing facilities will extract from Japanese spent fuels approximately 85 tonnes of plutonium, all of which will be consumed as fuels for fast-breeder reactors, advanced thermal reactors and light water reactors. Although there are some minor changes in programmes, they will never affect Japan's plutonium utilisation policy.

Furthermore, we have enough capacity to consume plutonium in Japan. For example, the above forecast indicates that we will consume about 50 tonnes of plutonium in our light water reactors, which is only 10 per cent of the fuel consumed at the 44 operating reactors (about 37GW in capacity) at the moment. Seven more light water reactors (about 7.9GW in capacity) are now under construction.

Our reprocessing contracts with BNFL provide for the return of the waste arising from reprocessing of our fuels and we shall honour the contracts. A repository for domestic low-level waste has already begun operation and a storage facility for returned high-level waste is now being constructed. We see no difficulty in preparing storage places for intermediate and low-level wastes once the quantity of those wastes is known.

Japanese electric power companies have been endeavouring to establish nuclear fuel recycled with the fast-breeder reactors as a core technology. We are approaching our goal step by step.

T Matsunaga,
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FINANCIAL TIMES

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Thursday December 9 1993

Papering over the cracks

"Why this white paper?" asks European Commission president Jacques Delors and his co-authors on its very first page. "Why indeed?" might well be the murmured reply of certain European finance ministers. But Mr Delors' paper – long, wordy and lacking in detailed prescription though it may be – is a worthwhile contribution, at least to the unemployment debate. It does not quite succeed in providing the European "vision thing" that Mr Delors was looking for. But that is the politicians' joh, not the Commission's.

The white paper's opening question is, in fact, satisfactorily answered on the first page. It is primarily a document ahout labour markets and, in particular, the failure of a myriad of national solutions either to cut long-term unemployment or (not the same thing) revive employment growth. Not that the Commission claims to offer a worked-out solution. But, in its definition of the problem, its dismissal of easy solutions, and its aspirational model for the future, the white paper makes a lot of sense.

First the diagnosis. Employment growth in Europe, the Commission confirms, has heen slower than in other regions of the world because of government-erected barriers to hiring labour. Meanwhile unemployment has stayed high through the economic cycle hecause investment has heen insufficient, while regulations have prevented the cost of unskilled labour falling in the face of technological change and external competition.

Politically untenable

The paper is encouragingly quick to dismiss miracle cures. Protectionism, a dash for inflationary growth, a generalised cut in working bours, a drastic cut in wages and social protection to east Asian levels – all these non-solutions are tbankfully dismissed. Nor is US-style deregulation alone enough. Sluggish productivity growth, accompanied by falling real wages and rising unskilled male johlessness, seems both politically untenable and economically short-sighted.

The better approach, the white paper argues, is to remove obstacles to joh creation, thereby raising the employment intensity of growth, while hoosting the sustainable growth rate by raising investment in physical and human capital.

Yet the white paper, while providing an impressive framework for analysis of Europa's lahour market problems, ducks the difficult issues. The Commission is right to argue that high non-wage labour costs, especially at the lower end of the wage distribution, are important obstacles to employment creation. But there is little mention of the employment effects of Spanish-style levels of incumbent worker protection. Is there a workable balance between deregulation and employee protection? A dilemma ducked.

Employment flexibility

The peper also rightly points out that wages must grow more slowly than productivity if profits and investment are to rise. Britain's failure to control its wage inflation in the 1980s demonstrates that decentralisation is not a guaranteed solution. But centralised tripartite bargaining has clearly undermined emptoyment flexibility in many countries. How can this tension between micro-flexibility and macro-co-ordination be resolved? Another dilemma dodged.

On the need for funds for private investment, the paper seems to hite the bullet. Only the public sector can be relied on to free up savings for investment, it says, so fiscal deficits must be cut now in order to generate surpluses when growth eccelerates. But it also says that governments must pursue expensive expansions of education and training, and maybe provide more non-wage incoma support for the unskilled. But do offsetting cuts in public spending imply a re-thinking of welfare priorities? Again, the paper is silent.

The commission, however, can hardly be criticised for failing to find solutions which have eluded European policymakers for over a decade. In so far as progress can be made in dealing with unemployment, it will involve further, specific actions at the national level – Europe may have a single market in goods, hut it does not have a single labour market. The role of Brussels is to identify best practice and to encourage individual governments to make the right choices. This white paper is a start.

Re-inventing US banking

When the Federal Reserve set out to recapitalise the US hanking system after the collapse of the 1980s credit boom, few foresaw that a by-product of this policy would be the transformation of the structure of the banking industry. There lies tbe irooy in Mellon Bank's proposed acquisition of the Dreyfus mutual fund management group, which could prove a significant landmark in the development of US banking if it goes ahead as planned.

The $1.85bn (£1.2bn) share swap announced this week is a logical response to the erosion of the deposit hase of the commercial banking system and the flight of money into mutual funds, which has resulted from the Fed's management of interest rates.

With short rates well below tong bond rates, US banks have made large profits by borrowing cheaply from depositors to invest in higher-yielding government IOUs. Yet there has been a tonger-term cost. Since short rates yield next to nothing in real terms, depositors have fled the banking system for potentially higher returns in bond and equity funds.

The Fed, admittedly, has donc no more than to accelerate a trend that was already well under way. But the shrinkage in the banks' core husinesses has been astonishing.

The US household sector's holdings of bank deposits and money market funds have fallen from 50 per cent of total discretionary savings in 1975 to little more than 30 per cent today. Mutual funds have been the chief gainers. On present trends their assets, which are equivalent to about 80 per cent of bank assets, could leapfrog thc deposit base of the banking system hy mid-decade.

More creditworthy

This process has coincided with the much-publicised loss of lending business resulting from the third world deht crisis. Since the early 1980s, large companies have borrowed more cheaply from the markets hecause they are more creditworthy than their own bankers.

Any flattening in thc yield curve, wherehy short-term rates move upwards to narrow the gap against long rates, might put a damper on the outflow of deposits from the banks. But the erosion of the hanks' deposit hasa is a deep-seated trend. The hanks' response has in large part been to promote their own in-honse mutual funds. Yet this piecemeal approach is desperately slow in the face of tbe tidal outflow. Hence Mellon's ambitious moves – first, to acquire the Boston Company private banking and mutual fund group last year, and now to pitch for Dreyfus.

Novel form

The attraction is not merely that former bank depositors are recaptured under another guise. The mutual funds have also heen husily underwriting new issues in the equity and hond markets, therehy giving the hanks an alternative way of extracting fee income from the corporations that no longer borrow from the banking system. The result, as the economist David Hale of Kemper Financial Services has pointed out, is that the US is moving to its own novel form of mutual fund-based universal banking.

Such a system is not without risks. Many former bank depositors mistakenly believe that their investment in hank-managed mutual funds carries a government guarantee. Others have yet to recognise that they can lose much of their capital if markets plunge. Yet with more risk falling on individuals rather than financial intermediaries, the financial system itself is unquestionahly more robust.

A further remarkable irony is that, by helping drive dcposits out of the banking system into mutual funds, thc Fed has almost accidentally helped create precisely the banking structure that many experts and lcgislators had wanted to bring about hy other, more cumbersome means: a two-tier system where only very low-yielding deposits enjoy the luxury of government-backed deposit insurance, while higher-yielding assets are unprotected. Moral hazard, which cost the US so dear in the savings and loans fiasco, is thus discreetly being reduced to more manageahle proportions. This ontcome, which is nooe the worse for being so uoexpected, should be heartily welcomed, even if there is some transitional pain for investors along the way.

A brief encounter, now line is engaged

The Franco-German telecoms pact was prompted by growing global competition, says **Andrew Adonis**

Competition unleashed by the erosion of state monopolies is a primary driving force in Europe's telecommunications industry. It was the main influence behind the alliance of the French and German public telecommunications operators, launched on Tuesday.

To exploit emerging markets, telecoms partnerships are being forged across the world. Afraid for their markets, France Télécom and Deutsche Telekom have joined forces to keep such rivals at bay – particularly the alliance unveiled in June between British Telecommunications and MCI, the second largest US telecoms operator.

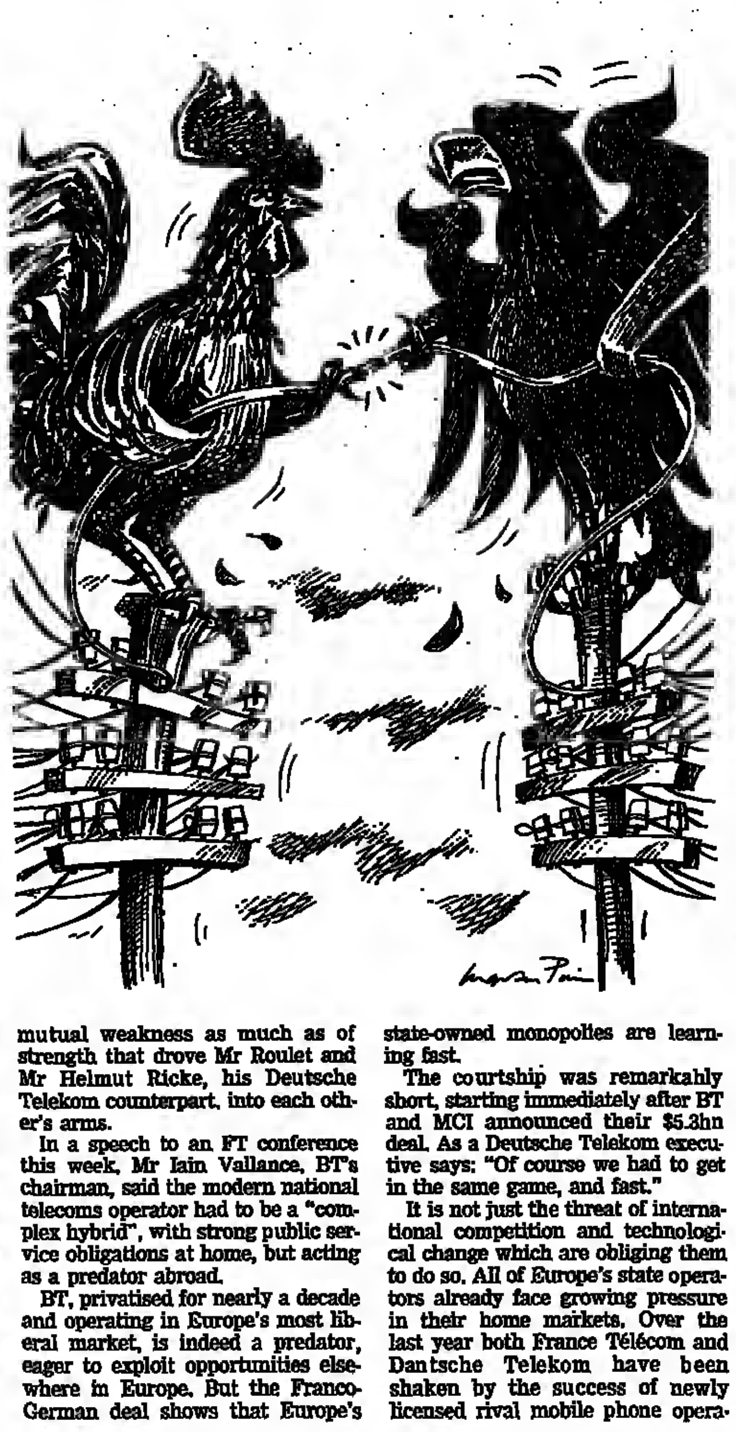
A pact between the US telecoms giant AT&T and several Asia-Pacific operators, agreed shortly before BT's, also concentrated French and German minds. AT&T is not necessarily hostile: it needs a European partner and is currently in talks with the French and German companies about whether they might fill that role. But the prospect of a global AT&T increased the pressure on them to form a joint venture *before* concluding any deal with the Americans.

Technological advance, increasing the range of sophisticated network and multimedia services that operators can offer, is a second force behind recent alliances. The Franco-German link-up, teaming two public network operators, is of the more conservative variety. In the US, today's fashion is for "multimedia" alliances between telecoms operators and entertainment, cable and computing companies. In the past few months alone there have been deals between US West and Time Warner, Bell Atlantic and TCI, and Southwestern Bell and Cox Enterprises.

The heart of the Franco-German alliance is an Ecu1bn (£760m) company whose job will be to build a European "backbone" network offering multinational companies enhanced services, including private networks that cross borders.

The size of the market for such "one stop" services is unclear. Mr Marcel Roulet, France Télécom's chairman, says the new company is aiming at the leading 600 or so multinationals. BT talked of "thousands" of possible clients at the launch of its MCI venture, which plans to offer similar services to the Franco-German alliance.

But only a handful of multinationals have yet shown much interest in patronising "one-stop" shops. And with an increasingly competitive world telecoms market, the margins in the husiness ara unlikely to be high. A recent survey hy the UK's Telecommunications Managers Association showed that 94 per cent of 439 large companies – inclnding many of Mr Roulet's 600 – had decided against contracting out their telecoms requirements.



However, undue concentration on the immediate prospects for the partnerships would be a mistake. Business from multinationals can be expected to grow as the new alliances succeed in developing and customising advanced services over their dedicated networks.

Moreover, multinationals are only the first target of the alliances. By 1998 European operators will be forced into head-to-head competition for basic "voice" traffic using public networks – the medium for most of today's telecoms traffic. Mr Gregory Staple, a US analyst, estimates that the volume of international "voice" traffic carried over the world's public networks will increase from 42bn minutes last year to 60bn in 1995, so the market at stake is considerable.

Significantly, all the services to be offered by the Franco-German alliance are in markets already liberalised by the European Union. Only one existing deregulated market has been excluded – mobile communications; and at the launch of the alliance Mr Roulet stressed the potential for future collaboration in that field.

Once teething problems are overcome, the alliance is likely to move into other telecoms markets as they are deregulated by the Commission. As Mr Jacques Champeaux, leader of the negotiations for France Télécom, put it: "Growth depends upon the evolution of regulation."

The implication is stark: when Europa's public networks are opened to competition in 1998, the French and Germans may seek to merge some or all of their basic voice services.

Given their size, that would create not just a European, but a global giant. Deutsche Telekom and France Télécom are, respectively, the world's second and third largest carriers of international telecoms traffic. In 1992 their combined traffic base was marginally behind that of AT&T and more than three times that of BT, which ranks fourth. With economic revival in eastern Germany and the French and German operators' ambitions in eastern European, their relative position is likely to strengthen further.

Nonetheless, it was perceptions of mutual weakness as much as of strength that drove Mr Roulet and Mr Helmut Ricke, his Deutsche Telekom counterpart, into each other's arms.

In a speech to an FT conference this week, Mr Iain Vallance, BT's chairman, said the modern national telecoms operator had to be a "complex hybrid", with strong public service obligations at home, but acting as a predator abroad.

BT, privatised for nearly a decade and operating in Europe's most liberal market, is indeed a predator, eager to exploit opportunities elsewhere in Europe. But the Franco-German deal shows that Europe's state-owned monopolies are learning fast.

The courtship was remarkahly short, starting immediately after BT and MCI announced their $5.3bn deal. As a Deutsche Telekom executive says: "Of course we had to get in the same game, and fast."

It is not just the threat of international competition and technological change which are obliging them to do so. All of Europe's state operators already face growing pressure in their home markets. Over the last year both France Télécom and Dantsche Telekom have been shaken by the success of newly licensed rival mobile phone operators competing against their mobile subsidiaries.

The liberalisation of data and private networks looks set to pose a similar threat. Mannesmann, the main competitor to Deutsche Telekom in the German mobile phone market, last month launched a consortium with RWE, the energy-based conglomerate, and Deutsche Bank, Germany's largest bank, to offer fixed-wire services to corporate clients. The consortium's ambitions are likely to expand in line with liberalisation.

Mr Roulet and Mr Ricke also face obstacles as they try to implement the restructuring of their companies necessary to make the alliance a success. The present legal status of France Télécom and Deutsche Telekom prohibits the companies even from swapping equity, something they are keen to do to underpin their marriage.

Mr Ricke's priority is privatisation. Although the German government and Social Democrat opposition party have reached a tentative agreement on a privatisation plan, its progress is glacial. "There is no definitive political consensus to create a private company – only a vague willingness," says Mr Ricke.

Privatisation is not on the agenda for France Télécom. Even plans to transform the operator into a state-owned company with share capital, which would facilitate international partnerships, are being delayed by strong opposition.

Legislation to change France Télécom's legal status was due to be introduced into the French parliament next spring. But the planned reforms drew protests from trade unions, afraid that the change would mean job losses and cost-cutting measures, and would be a prelude to privatisation. A one-day strike in October was supported by about three-quarters of France Télécom's employees, forcing the government to extend negotiations.

Even the alliance with Deutsche Telekom appears too much for some of the French operator's unions. The Confédération Générale du Travail, the communist-led union, said it represent a step towards privatisation and should be rejected. The union is planning to call another strike for December 14.

BT's reaction to the Franco-German alliance was to call for the introduction of "voice" competition before 1998, and for the early liberalisation of the market for telecommunications infrastructure, which would enahle operators to huild their own networks. But given their prohlems, Mr Roulet and Mr Ricke can see no virtue in accelerating the pace of liberalisation – with or withont an alliance.

Flexibility is a friend of the jobless

PERSONAL VIEW

The most important issues facing the European Union and its political leaders are growth and unemployment. There are 19m people unemployed in the EU, and the figure is rising fast.

International comparisons of job creation speak for themselves. North America has created about 36m jobs since 1973 and Japan 12m, mostly in the private sector. The EU has created fewer than 8m jobs in the same period, most of them in the public sector. This has added to the tax/borrowing hurden, which in many countries is increasingly seen as insupportable.

There is a high degree of agreement among EU memher states about the cause of Europe's unemployment prohlems. Increasingly they recognise that, while the recession has an effect, there are more deep-seated structural prohlems in Europe's labour markets: a lack of flexibility in the operation of labour markets, partly as a result of excessive or misdirected regulation; high labour costs, particularly social contributions; inadequate incentives to work; and a lack of the skills, among significant parts of the labour force, needed to compete in a fast-changing world.

What needs to be done? Recovery from the recession is important. All countries must have sustainahle and non-inflationary economic and fiscal policies. We must continue to develop and maintain free trade and more open markets. We must create an environment which encourages enterprise and innovation.

But we need to do more than this. We must try to remedy those labour market deficiencies which are making it increasingly difficult to create jobs in Europe, and against which employers are protesting.

To help economies compete, labour markets must act as an aid to growth, increasing competitiveness and the creation of jobs, rather than as a barrier. Otherwise, we may suffer from "johless growth" – and the gap between the employed and the unemployed will widen.

There is no one hlueprint. Different countries have different problems, such as high labour costs, insupportable levels of social protection, and excessively rigid legislation in the labour market.

We in Britain have pursued our own course over recent years to teckle labour market rigidities through deregulation, and revisions of the legal framework. We have seen a significant growth in self-employment and part-time work as employers and individuals have taken advantage of our progress. But we still do not match the best in Europe in our workforce's skills.

All social legislation, existing and planned, should be subjected to a competitiveness audit

In emphasising the desirability of greater flexibility and diversity in labour markets, there is one lie I should like to nail. There is no *question of abandoning systems of* social protection. Nor do we want to compete with the third world on wages. Our competitive edge must come in terms of the skills and abilities of our people, higher productivity and the quality of the goods and services we offer. But we must still ensure that European pay and cost levels and over-rigid rules do not undermine competitiveness.

Most of the necessary action is for individual member states. However, there is a role for the EU, too. We fully accept the need for action in areas such as health and safety, free movement of labour, and the promotion of growth and jobs through the structural funds.

The problem we have had in the past is that European Union social and employment legislation was rarely introdnced with sufficient regard to its effect on competitiveness and jobs, and in some cases it had serious adverse effects.

This is why I have proposed that all social legisletion, existing and planned, should be subjected to a "competitiveness andit", through which there would be rigorous analysis of its effects in terms of *growth*, competitiveness and jobs.

There are no easy answers. We cannot spend our way out of the problem. There are no billions of pounds or Ecus to be spared, except at the cost of crowding out the private sector. There are no magic, uniform solutions such as sharing out the available jobs.

It makes good sense to develop new and more flexible working patterns. Work-sharing may be feasible at company level as a voluntary, negotiated short-term adjustment, hut imposed at a national or EU level it would result in costs and rigidities which would endanger the productivity and dynamism on which more jobs depend.

Our task is to increase jobs, growth and prosperity, not to settle for what we have and share it out. We have a chance to strike the right halance for the future in the debates at the European heads of government summit, which starts tomorrow, and in the months that follow. That is an opportunity which must not be missed.

David Hunt

The author is UK secretary of state for employment

OBSERVER

Gorby sits tight

■ Three guesses who is Russia's *most famous floating voter?* On an extended international jaunt – including London yesterday – Mikhail Gorbachev told Observer his lips are sealed as far as Sunday's election is concerned. Only when he gets back home on Friday will he make up his mind where his vote is going.

Mind you, the last non-elected president of the Soviet Union knows who he *won't* vote for: Boris Yeltain. "I do know thet I won't vote for Russia's Choice [the reformist hloc backed hy nemesis Boris Yeltsin]. *I will not vote for hardline* communists and I will not vote for the extremists."

So if he doesn't fancy Yeltsin or the "extremists", who is left?

Only three other parties are serious contenders: the centrist Civic Union, the Democratic Party of Russia, and cautious reformists led by Grigory Yavlinsky.

But given Gorbachev's low standing among Russian voters, probably all political parties are happy with his non-endorsement.

Never say die

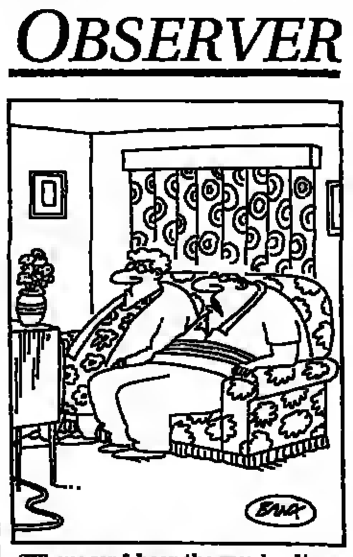
■ Did Observer hear aright? Ian Plenderlelth, associete director of the Bank of England, was in full flow at the City of London central banking conference yesterday detailing the Bank's important role in the progress towards financial market integration across Europe. Even the stock exchange's "unfortunate setback with Taurus" was *somehow a* "*blessing* in disguise" for all concerned.

Indeed, its perch outside the ERM notwlthstanding, Loodon was presented as remarkahly near the epicentre of the latest steps forward. But it was only when Plenderleith casually hrought up the European Central Bank – "wherever it is [located]" – that the audience twigged that an Old Lady just never gives up . . .

Family squabble

■ The Sainsbury supermarket clan always has been a broad church but the Sunday trading vote has opened up an embarrassing rift between David Sainsbury, the chairman, and his cousin, Tim Sainsbury, the industry minister, wbo was e director of Sainsbury for over 20 years.

Tim is on the side of the Keep Sunday Special brigade and was planning to vote against the Shopping Hours Reform Council compromise backed hy cousin David and other hig supermarket chains. He's mightily concerned about the disruption to family life and small shops caused by Sunday trading. Although it is 10 years since he left the board, Tim's father, a former chairman, remains one of the joint presidents. Ironically, the spin doctor behind SHRC is Des Wilson, former Liberal Democrat campaign organiser. His parliamentary ambitions ended when he was defeated by Tim Sainsbury at the 1973 election.



'Whenever I hear the word culture I reach for my Arnold Schwarzenegger videos'

Yesterday's man

■ So what does Sir Peter Thompson, Britain's leading disciple of wider share ownership, make of the latest developments at his old company, NFC? Yesterday's £269m rights issue means that NFC is even closer to losing its status as one of the few companies where the employees have some control over events.

When Observer finally ceught up with Sir Peter, en route to the annual dinner of his current hohby horse ProShare, he was reluctant to pass judgment. Ha had not seen the announcement and insisted that he was "no tonger the keeper of NFC's soul".

However, he expressed some sadness at the steady dilution of the NFC employees' shareholding. "It is something I fought very hard for," says Sir Peter, who now admits that it is very hard to resist commercial pressures when a company is floated on the stock market. He didn't sound quite so dispirited when he hrought NFC to market in 1989.

Die laaste woord

■ Little wonder some Afrikaners show signs of deep paranoia. First their language, Afrikaans, loses pride of place as joint official language with English; under the new order there are now 11 official languages.

Then some wine estates ceased using Afrikaans on their labels, much to the anguish of the Afrikaans newspaper Beeld, which actually ran an editorial on the matter. Now South African Breweries – which accounts for 98 per cent of malt beer sales – and the local bottler of Coca-Cola have decided to drop Afrikaans from their cans. This will allow a redesign which should lower production costs by 2 cents a can.

Coke's view is that with 11 official languages it made sense to choose one. SAB's logic is that it's moving into exports, and who reads Afrikaans overseas?

Mixed grille

■ Spare a tear for the directors who waved goodbye to their company cars last year. An Institute of Directors and Reward Group survey on director's pay discloses that the number of directors with company cars is down this year to 63 per cent from last year's 79 per cent.

As those who dream of Direct Line salaries kiss goodbyes to their four-wheeled friends, they can perhaps take comfort from the fact that some standards are not falling: the Jaguar is still the director's favourite, followed hy Mercedes.

Hubble bubble

■ Before getting carried away by the amazing feats performed by brave astronauts currently *adjusting* the wing mirrors on the Huhhle space explorer, spare e thought for NASA's other face – its cost. *Harper's*, the US monthly, quotes NASA as this year alone losing or blowing up equipment worth $567m. *Someone* ought to be getting a rocket.

هكذا من الأصل

FINANCIAL TIMES
Thursday December 9 1993

US hints at delay in withdrawal of Israel's West Bank troops

By Julian Ozanne in Jerusalem

The US said yesterday it would not object to a delay in next Monday's deadline for Israel to start withdrawing troops from the occupied Gaza Strip and West Bank area of Jericho if the Palestine Liberation Organisation agreed.

The move came as Israel prepared to make symbolic gestures next Monday and Mr Yitzhak Rabin, prime minister, sent reinforcements to the West Bank, bringing the number of Israeli troops in the occupied territories to 14,000, after an upsurge of Arab-Jewish bloodshed.

An extremist faction of the PLO claimed responsibility for shooting and wounding an Israeli settler in Bethlehem. It said its action marked the sixth anniversary of the Palestinian uprising and confirmed the continued armed struggle against the Israeli-Palestinian peace accord.

Mr Warren Christopher, US secretary of state, said in Cairo that the US would accept a delay in implementing the peace agreement if both sides agreed, but he urged Israel and the Palestinians to press ahead as quickly as possible. "The sooner they can begin the actual implementation, the more progress that will be made and the less the likelihood of violence," he said after meeting President Hosni Mubarak of Egypt.

Israel and the PLO exchanged draft protocols in Cairo yesterday but have yet to agree on vital issues like the size of the Jericho area, who should control border crossings and whether there will be a customs union between Israel and the Palestinian economy.

Despite the failure to reach a final agreement, Israeli officials said they would take important symbolic measures next Monday, including some troop deployment out of Palestinian areas in Gaza and the release of up to 2,000 Palestinian prisoners. Mr Yassir Arafat, PLO chairman, and Mr Rabin are expected to agree on the measures at a meeting in Cairo on Sunday.

In a move to calm increasingly violent and vocal settlers, Mr Rabin yesterday revealed details of Israel's military presence in the occupied territories – normally a closely guarded secret. Mr Rabin described the deployment as tremendous and said there were four times as many soldiers in the territories than on the Lebanese border.

In a warning to both Israeli and Palestinian extremists seeking to disrupt the peace process, Mr Rabin said: "Nothing will deter the government and me from our determination to continue along the path we opened to implement the agreement."

In Bonn, Mr Arafat urged German industrialists to invest in infrastructure development in the Palestinian economy. Mr Arafat, who has been on a two-day visit to Germany, is due to fly to Spain today where he will meet Mr Shimon Peres, Israel's foreign minister. Both men, together with Mr Rabin, were yesterday nominated for the 1994 Nobel Peace prize by German parliamentarians.

Officials say economy has 'reached the bottom' as GDP rises by 0.2%

France sees signs of economic growth

By John Ridding in Paris

The French economy grew by 0.2 per cent in the third quarter of this year, confirming official forecasts of a stabilisation in activity but underlining the fragility of recovery.

The rise in gross domestic product, announced yesterday by Insee, the national statistics office, was given a guarded welcome by economic officials in Paris.

"We have reached the bottom of the decline," said a spokesman at the economics ministry. "But we do not expect any significant recovery until next year."

The release of the GDP figures came as the French franc rose strongly to return to its previous narrow trading bands within the European exchange rate mechanism. The rise in the franc, to FFr3.434 to the D-Mark was the first time the currency had traded above its former ERM limit of FFr3.4305 since the summer's currency crisis forced a widening of trading bands within the exchange rate system.

Currency analysts in Paris said the franc's strength was more a reflection of D-Mark weakness and optimism about a successful conclusion to international trade negotiations than a reappraisal of French economic prospects.

They added that French monetary authorities were likely to continue their policy of cautious cuts in borrowing costs, following the Bundesbank, in spite of the increased room for manoeuvre afforded by the level of the franc.

The increase in third quarter GDP, which follows a similar rise in the second quarter and a sharp contraction in the previous two quarters, was partly due to stronger than expected consumer spending. Household consumption rose by 0.7 per cent on the previous quarter in spite of increases in the CSG social security tax.

Exports also increased, rising by 0.8 per cent in the third quarter after three consecutive quarters of decline. The housing market showed signs of life, with sales of new houses rising by 2.5 per cent compared with the previous quarter.

However, the bright spots were offset by evidence of continued weakness in industrial confidence. Investment, which declined by 1.3 per cent in the second quarter, contracted by 0.5 per cent in the July-September period.

The French government said the statistics were in line with its projections of a contraction of GDP of 0.8 per cent this year and growth of 1.4 per cent in 1994. But private sector economists believe these projections are optimistic and some argue that evidence of a weakening in consumer spending since September could result in a contraction in GDP in the current quarter.

Currencies, Section II

UK bank seeks foreign partners to expand smart card scheme

By John Gapper, Banking Editor, in London

National Westminster Bank in the UK unveiled an electronic "smart card" yesterday which it hopes customers will eventually use instead of cash.

They will be able to load the Mondex card with money from cash dispensers, or telephones.

NatWest, which has established a joint venture with Midland Bank and British Telecom to launch the card in the UK, wants retailers to install card reading machines which would allow people to use Mondex for even tiny transactions.

The card, which has a computer chip embedded in it, can hold a maximum of five separate currencies at a time. NatWest is now trying to recruit partners in up to 30 countries to establish Mondex internationally.

Mondex will be simpler to use in shops than credit or debit cards because purchases will not be individually authorised. The bank hopes people will be attracted by not having to carry change around, despite the system's intricacies.

It will allow consumers to transfer cash to and from bank accounts and cards using cash dispensers or phones with card readers. They will also be able to swap money between their cards using electronic "wallets".

It will be tested by about 30,000 consumers in Swindon, Wiltshire, in mid-1995 after BT adjusts phones in the area. NatWest said that it expected the card system to spread in international banking markets over the next 15 years.

Mondex differs from smart card projects in Denmark and France in not requiring buyers to enter a Pin code number to authorise purchases. Cards can be electronically "locked" to block use, but can be used like cash if unlocked.

The move comes amid growing competition to establish a global smart card standard. Visa and Mastercard, the credit card companies, disclosed this week they would work together to form a common standard by next year.

Many banks view smart cards, which hold value on computer chips, as successors to credit and debit cards. Development has been stimulated by lower chip prices, and technological advances which cut fraud risks.

NatWest would not disclose the capital investment in the scheme, which it has been developing for four years.

Mr Bert Morris, NatWest deputy chief executive, said Mondex would not eliminate the use of cash entirely but it would be more convenient, and suit groups of consumers and retailers who did not use debit and credit cards.

Mystery of plastic cash, Page 10

Russia warns republics over referendum

Continued from Page 1

centre of anti-Russian agitation in the north Caucasian region. However, several other republics, led by Tatarstan, insist on the right of sovereignty and most party leaders have come out against the constitution.

Mr Yegor Gaidar, head of the liberal group Russia's Choice, said in a newspaper interview that the constitution "bears the stamp of the events of October 3-4" and that it was far from perfect. "All the same, I'm deeply convinced that the risk of its not being adopted is incomparably greater than the risk from its imperfections."

Mr Anatoly Sobchak, mayor of St Petersburg and a leader of the Movement of Democratic Reforms, which supports the constitution, said he feared the referendum would not be passed. "The overwhelming majority of voters either know nothing or too little about it," he said.

THE LEX COLUMN

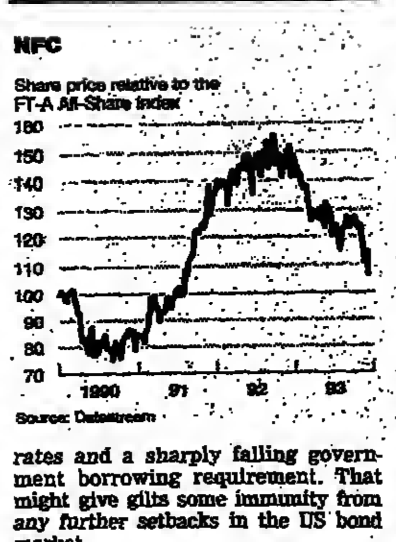
NFC travels hopefully

NFC's first rights issue brings it further into line with convention. The company's policy of giving a best view of profits for the coming year has already been abandoned, for fear of litigation if the forecast was missed. It is a fair bet that the tradition of employee share ownership will now take a knock. The employee shareholding could fall to 11 per cent as a result of the rights issue, only a shade above the level at which employees lose special voting rights.

Still, BZW's offer to buy small shareholders' rights should minimise the embarrassment of asking employees for cash in such difficult times. With shareholders funds of only £300m supporting sales of almost £2bn, NFC has long looked in need of additional equity. Gearing of 53 per cent before the issue does not look especially high, but that excludes a growing portfolio of operating leases. Goodwill write-offs arising from acquisitions would have quickly eaten into such a modest equity base. With capital expenditure rising and restructuring costs starting to bite, cash flow was also inadequate to make inroads into debt.

Whether NFC will earn a decent return on new investment is less certain. A £10m loss in parcels last year, following a fundamental reorganisation, is a blot on the management copy-book. By focusing on logistics NFC is edging away from such commodity businesses. Even in specialist markets, though, margins are likely to remain under pressure. With the rights issue now in the open NFC's shares have room to rise, but only if the management spends wisely.

FT-SE Index: 3277.4 (+40.1)



Source: Datastream

UK gilts

Even the most optimistic expectations were confounded by the reception accorded to yesterday's gilt auction. Last minute US demand was cited as one factor but, whatever the reason, cover of 2.19 times and the concentration of bids around the average accepted yield of 6.51 per cent indicates strong underlying demand. Without that, the market would certainly have reacted badly to yesterday afternoon's £1.2bn tap stock announcement.

It looks therefore as though international investors are moving quickly to reassess gilts after last week's budget. The UK is, after all, one of the few industrial countries which can offer a background of low inflation, some economic recovery, declining short term rates and a sharply falling government borrowing requirement. That might give gilts some immunity from any further setbacks in the US bond market.

Yesterday's taps will further reduce new issue volume next year and add to the prospect of shortage on which the market thrives. Yet there is limited headroom for yields to fall. The shortest dated paper is already trading below 5 per cent. The market could become impatient if the next rate cut is delayed. And it still requires an act of faith to lend 25-year money to the UK government at just 6.7 per cent.

Courtaulds Textiles

What an embarrassment. Just as Mr Martin Taylor tidies his desk to hustle off to Barclays he feels obliged to issue a profits warning at Courtaulds Textiles, knocking 10 per cent off its shares. Problems commissioning a new Aristoc hosiery factory, a further downward lurch in French demand and the slowing pace of the UK recovery have made a mockery of the upbeat noises coming from the company three months ago. How much of the shortfall was caused by a slippage of grip resulting from management changes is hard to gauge. But the principal factor was the familiar tale of an operationally-geared company suffering a disproportionate profits hit whenever sales disappoint. The fourth quarter is critical, since it normally accounts for 40 per cent of profits. Worries about the budget may have unsettled buyers of luxurious lingerie.

Insofar as Courtaulds Textiles' recovery has been postponed a year, the scale of the stock market's reaction seems reasonable. But, at least, it was commendably swift in releasing the bad news through a formal statement. If other companies are similarly disappointed at the gradient of recovery and unnerved by heady share ratings, it is to hoped they have the courage to follow suit.

Electricity companies

Companies paying dividend increases of 20 per cent are either privatised or throw-backs to the 1980s. Unfortunately for lucky regional electricity company shareholders, this year's interim largesse will be tempered by the final payment and total dividend increases are unlikely to be more than 15 per cent. Still, that leaves REC investors with little to grumble about. Even the companies accept that their current profitability cannot last and will be curbed by the current regulatory review. A once and for all cut in electricity prices, as well as a tightening of the price cap seem likely.

While that could cut profits by more than 20 per cent, the RECs would still have positive cash flow. With cover still high and net cash in the bank, paying handsomely progressive dividends is thus little problem. Indeed, the RECs' over-capitalisation argues for more drastic action. One possibility would be to demerge rather than sell the National Grid. Putting its capital and dividend streams directly into REC shareholders' hands would certainly unlock value. After that, a wholesale capital restructuring to regear balance sheets and return cash would be preferable to squandering money chasing wild geese in the manner of the water companies.

Life insurance

Assessing the fall-out from the personal pensions fiasco is no easy matter. But the extent of poor sales practice now uncovered by the SIB must nudge the potential for compensation claims considerably higher. Companies which sell mainly with-profits policies have some protection even if guilty of malpractice, since the life fund should carry most of the cost. If compensation payments eat too far into the fund, though, the authorities could easily demand that shareholders accept more of the pain. Big sellers of unit-linked policies such as Abbey Life and Allied Dunbar would be more exposed, but only if their salesmen have been guilty of giving bad advice.

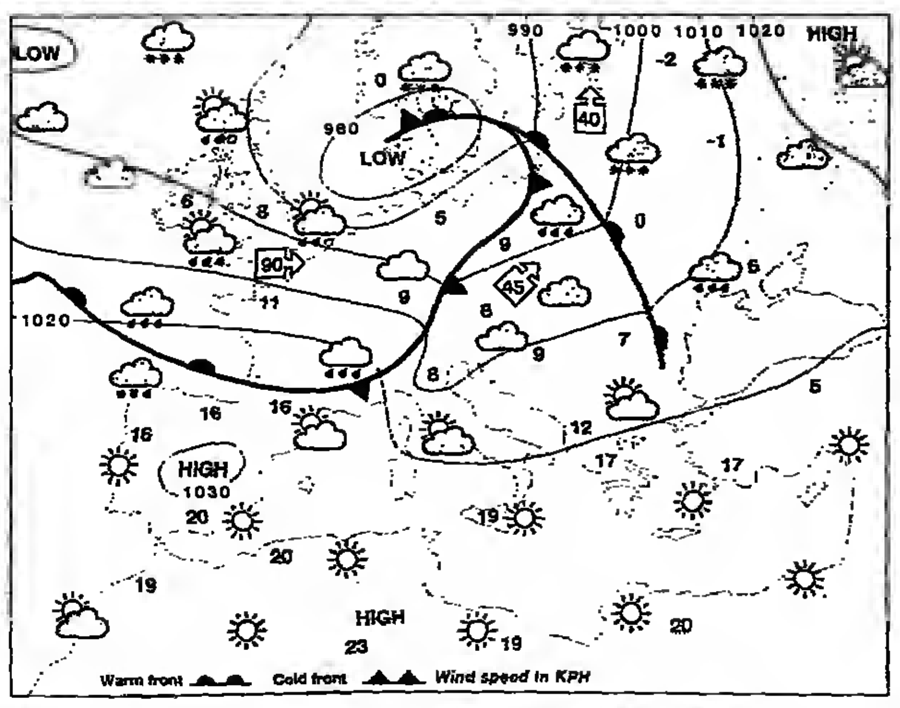
FT WEATHER GUIDE

Europe today

A strong westerly flow will send a very active depression towards the continent. It will cross Denmark and move into Finland. Winds will increase to strong gale and temporarily to storm force along the Benelux coast. Cold and unstable air will spread over western Europe giving showers of mixed rain, snow and hail especially over the British Isles, the Benelux and northern Germany. Southern France and northern Spain will be more settled. Southern Italy, Greece and Turkey will be fair with abundant sunshine. Scandinavia and Iceland will continue to have snow and temperaturas below freezing.

Five-day forecast

Northern Europe will continue to have wintry conditions with more snow and moderata to intense frost. Western, central and south-west Europe will be unsettled with strong winds and wintry showers. Temperatures are expected to falt during the weekend. The Mediterranean region will stay settled with comfortable temperatures.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

City	Weather	Maximum Celsius
Abu Dhabi	sun	27
Accra	fair	33
Algiers	fair	20
Amsterdam	shower	8
Athens	fair	18
B. Aires	sun	29
B.ham	shower	8
Bangkok	cloudy	31
Barcelona	fair	17
Beijing	fair	5
Belfast	hail	5
Belgrade	cloudy	11
Berlin	shower	7
Bermuda	fair	25
Bogota	shower	19
Bombay	cloudy	33
Brussels	shower	9
Budapest	cloudy	9
C.hagen	rain	5
Cairo	sun	20
Cape Town	fair	22
Caracas	fair	26
Cardiff	shower	8
Chicago	cloudy	10
Cologne	cloudy	9
D'Salaam	shower	30
Dakar	fair	27
Dallas	cloudy	18
Delhi	sun	25
Dubai	sun	29
Dublin	cloudy	6
Dubrovnik	cloudy	14
Edinburgh	hail	6
Faro	sun	19
Frankfurt	cloudy	9
Geneva	rain	10
Gibraltar	sun	19
Glasgow	shower	6
Hamburg	hail	5
Helsinki	snow	1
Hong Kong	fair	21
Honolulu	fair	27
Istanbul	fair	12
Jersey	windy	9
Karachi	sun	32
Kuwait	fair	23
L. Angeles	fair	20
Las Palmas	fair	21
Lima	cloudy	23
Lisbon	sun	15
London	cloudy	8
Luxbourg	cloudy	7
Lyon	rain	12
Madeira	fair	19
Madrid	fair	13
Majorca	fair	19
Malta	fair	19
Manchester	hail	8
Manila	shower	28
Melbourne	fair	27
Mexico City	fair	21
Miami	sun	25
Milan	fair	10
Montreal	fair	3
Moscow	snow	-2
Munich	cloudy	11
Nairobi	shower	23
Naples	fair	17
Nassau	fair	28
New York	fair	10
Nice	cloudy	18
Nicosia	fair	18
Oslo	snow	-2
Paris	cloudy	10
Perth	cloudy	23
Prague	cloudy	9
Rangoon	fair	34
Reykjavik	snow	-1
Rio	sun	28
Riyadh	sun	25
Rome	fair	18
S. Frsco	rain	13
Seoul	fair	5
Singapore	shower	29
Stockholm	snow	-1
Strasbourg	rain	13
Sydney	fair	23
Tangier	sun	19
Tel Aviv	fair	19
Tokyo	shower	12
Toronto	fair	2
Tunis	fair	21
Vancouver	rain	9
Venice	cloudy	9
Vienna	cloudy	11
Warsaw	rain	10
Washington	fair	12
Wellington	shower	17
Winnipeg	snow	-8
Zurich	rain	12

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FINANCIAL TIMES

COMPANIES & MARKETS

Thursday December 9 1993

INSIDE

News Corp rises on dropped plan

Shares in Mr Rupert Murdoch's News Corporation closed up about 9 per cent at A$10.90 after the group withdrew its plan to issue shares with super voting rights. More than 4m News Corp shares changed hands. Page 20

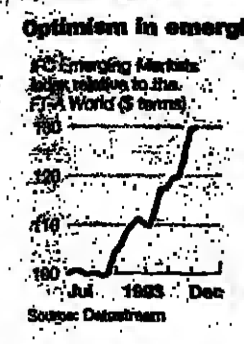
Pernod and Allied in drinks swap
Pernod Ricard, the French drinks group, yesterday announced it would swap one of its Irish whiskey brands for a Canadian whisky owned by Allied-Lyons of the UK. Page 18

More disclosure from Rembrandt Group
Results from Rembrandt Group, the South African tobacco-based conglomerate, are notable for the increased level of disclosure. The group has been notoriously shy. Page 21

Change for Japanese bankers
When Mr Yasushi Mieno, the Bank of Japan governor, suggested the country's banks could learn from the US experience of dealing decisively with bad loans, he was highlighting a remarkable change in thinking in Japan. Page 21

There may be gold in Sardinia
Two small Australian gold-mining companies have started a feasibility study into the production of gold in Sardinia, the Mediterranean island, by 1995. Page 26

Optimism in emerging markets



Emerging markets are expected to grow faster than the OECD for the foreseeable future, and if 1993 is anything to go by, there is no reason why next year should not see continued growth. Top of the list for growth are India and Mexico, followed by Argentina, Colombia, Taiwan and Korea. Back Page

Greenalls rises on food sales
Hungry drinkers helped Greenalls, the UK pubs and hotels company, to increase pre-tax profits 19 per cent. Mr Andrew Thomas, chairman, said the 25 per cent increase in food sales to pub customers had helped the group to return "a solid performance in what has not been an easy market". Page 23

Avon Rubber warns of tough times
Avon Rubber, the UK group, warned of a toughening trading environment in spite of an 18 per cent increase in annual pre-tax profits. Page 23

Unbroken run at Sage
Sage Group, the UK accounting software and stationery supplier, continued an unbroken run of growth in turnover, pre-tax profits and earnings per share. Page 25

Builder back in the black
Countryside Properties, one of south-east England's biggest housebuilders, bounced back into the black. Page 24

Uplift for tanker shipping market
Attracting money into tanker shipping has been difficult in recent years. But there are signs of a change. Analysts believe the first significant uplift in the tanker and bulk shipping market for two decades may be on the way. Page 24

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				Rises			
Continental	302.1	+	9.3	Bongrain	657	+	16
[illegible]	385	+	9	Fonc Lyonnaise	855	+	35
[illegible]	340	+	12	GTM-Entrepose	429	+	17
[illegible]	3905	+	72	Peugeot	729	+	18
Falls				Worms Cie	312.9	+	13.9
AEG	178	-	7.9	Falls			
[illegible]	270	-	6.5	CCF	285	-	8.9
NEW YORK ($)				TOKYO (Yen)			
Rises				Rises			
Amer Barrick	28	+	[illegible]	Hitachi	329	+	34
[illegible]	[illegible]	+	[illegible]	Falls			
[illegible]	[illegible]	+	[illegible]	Alps Electric	810	-	46
[illegible]	22¼	+	1½	Dai Nippon Print	837	-	54
[illegible]	24	+	1	Fuji Spinning	330	-	25
Falls				[illegible]	1570	-	170
Continental	20¼	-	1½	Shimura Kako	351	-	44

New York prices at 12:30.

LONDON (Pence)							
Rises				Whitney Mackay	23	+	8
[illegible]	400	+	30	Wood (JD)	74	+	6
[illegible]	[illegible]	+	[illegible]	Falls			
[illegible]	[illegible]	+	[illegible]	[illegible]	[illegible]	-	5
[illegible]	73	+	6	[illegible]	242	-	15
[illegible]	[illegible]	+	[illegible]	[illegible]	[illegible]	-	9
[illegible]	[illegible]	+	17	[illegible]	[illegible]	-	54
[illegible]	[illegible]	+	[illegible]	[illegible]	33	-	5
[illegible]	[illegible]	+	[illegible]	[illegible]	[illegible]	-	28
[illegible]	[illegible]	+	14	[illegible]	40	-	14
[illegible]	51	+	4	[illegible]	165	-	11

Xerox to cut its workforce by 10,000

By Martin Dickson in New York

Xarox, tha US document processing company, is to cut its worldwide workforce hy more than 10 per cent, or 10,000 jobs, during the next two to three years and will take a fourth quarter after-tax charge of about $700m to cover the restructuring.

It will also take a $154m charge in the quarter to cover the settlement of a 1992 anti-trust lawsuit over sales of spare parts for high volume copiers and printers.

The restructuring is the latest in a series of decisions by Mr Paul Allaire, the chairman, to shake up Xerox's culture and improve productivity.

While its products have a good market reputation, Xerox has an uneven profits record, partly because of sluggish growth in some of its most important global markats, partly hecause of a protracted reorganisation of its sales force.

Mr Allaire said yesterday that the restructuring in the document processing division "accelerates numerous productivity initiatives that have been under careful consideration for some time". The aim was to increase productivity, lower the cost base, be more responsive to customers and improve financial results.

The shake-up will involve the closure and consolidation of some facilities, and streamlining the organisation – including reduced layers of management. The company is also considering a plan to "outsource" some of its operations.

Mr Allaire said factors behind the accelerated restructuring included a redesign of the group's management structure in 1992, which had produced opportunities to cut costs; process re-engineering; improvements in product reliability, which cut service requirements; and increased manufacturing efficiencies.

The job cuts will be made by normal attrition, involuntary lay-offs and voluntary programmes. About half the cuts will be implemented next year. The company declined to say how many would be outside the US.

Tha anti-trust court case involved complaints hy customers and independent service organisations that Xerox had refused to give the service companies access to parts and software, allowing the company to overcharge for equipment, parts and service.

Undar the settlement, Xerox has agreed to sell parts to the service providers and it will give discounts of $225m to plaintiffs for part payment on future purchases of company products.

Mine sale ends Eastern German power monopoly

By Judy Dempsey in Berlin

Eastern Germany's highly regulated utilities industry is to he prised open after an Anglo-American consortium yesterday completed the purchase of one of the region's largest brown-coal mines.

PowerGen, of the UK, and NRG and Morrison-Knudsen, of the US, yesterday completed the purchase of Mitteldeutsche Braunkohlenwerke (Mibrag) from the Treuhand privatisation agency.

The consortium, investing more than DM1.3hn ($760m) to the year 2004, has guaranteed 2,100 jobs until the end of the decade in the three mines, two briquette plants and a small generating plant. The remainder of the Mibrag complex, employing about 3,600, will be hived-off.

Before German unification, Mibrag, which straddles the eastern state of Saxony-Anhalt and Saxony, employed more than 55,000 people.

The consortium will concentrate on modernising the mines and introducing technology to reduce the sulphuric oxide content of brown coal.

Mr David Petersen, president of NRG, said Mibrag would produce about 20m tonnes a year. Energy consumption has declined sharply in eastern Germany because of the shrinking manufacturing base.

Mibrag's coal will be delivered locally to the 1,600 MW power plant at Lippendorf, owned by Veag, eastern Germany's main utility company, to Meag, a regional utility group, and to Schkopau, an 800MW power plant. The latter is being huilt by VKR, the electricity arm of PreussenElektra.

The consortium has secured a 44 per cent stake in Schkopau and will sign the agreement tomorrow. Mr Petersen said the acquisition of Mibrag and Schkopau, was a "milestone in the participation in the German energy industry".

PowerGen officials hoped the entry into the eastern German market would open opportunities for the consortium, which spent two years negotiating to huy Mihrag. Eastern Germany's energy sector is regulated by the Stromvertrag, or electricity contract. It gives western Germany's largest utility companies an electricity monopoly in eastern Germany. The federal finance ministry and the Treuhand were anxious to open the region's energy sector to competition.

Matsushita Electric in big restructuring

By Michiyo Nakamoto in Tokyo

Matsushita Electric is to move 6,000 employees from administrative jobs into ones related to production, sales and new husiness development as part of a hig restructuring.

The world'a largest consumer electronics group said yesterday that 30 per cent of its administrative workforca, which totals about 20,000, would he transferred during the naxt three years.

Mr Yoichi Morishita, Matsushita's president, said that in face of the severe economic climate, restructuring was essential to revitalise the company.

Under the programme, which is to be implemented from February, the functions and structure of the group's headquarters in Osaka will be revamped. Development divisions will be reorganised so that they can find and work on new technologies more efficiently.

The move comes as the consumer electronics industry faces one of the worst downturns in its history, compounded hy growing pressure to move a larger part of manufacturing overseas to cope with the sharp rise of the yen.

Matsushita's restructuring plan also highlights the difficulty the group is having in coming up with innovative products to stimulate sluggish consumer demand.

While a large number of Japanese companies are struggling to adapt their corporate structures to a new era in which growth cannot be taken for granted, Matsushita, in particular, has been criticised as being bloated and bureaucratic.

The company employs 90,000 people in Japan and 250,000 worldwide.

Earlier this year, Mr Akio Tanii, suddenly resigned as president following a financial scandal. The event was seen by many in the industry as prohlems stemming from Matsushita's excessively large and complex organisational structure.

Profits have also been poor. In the year to March, Matsushita reported a 54 per cent decline in pre-tax profits to Y168.4hn ($1.57bn), the second year of sharp decline.

Following a cool summer which hit sales of air conditioning equipment, the economy has remained flat throughout the autumn.

Martin Dickson explains why the Supreme Court of Delaware's ruling in the Paramount case will affect other takeover battles

Barbarians wait at the gate

The $10bn takeover battle for entertainment group Paramount Communications could be decided in a hearing which opens today in the Delaware Supreme Court. Just as important is the precedent the ruling will set for other US bids.

Tha case is the most significant since the landmark Time-Warner judgment four years ago. At its heart is a controversial issue in US takeover law: what are a board's ohligations to shareholders during a takeover battle? In particular, what right does it have to ignore or obstruct a hostile offer for the company in favour of a lower priced friendly takeover, which directors maintain is better for the company long-term?

The issue arises because American boards have heen allowed hy law to huild up a panoply of defensive mechanisms to frustrate bids, or favour one over another. This is in contrast to a country like the UK, where takeovers are fought on an essentially level playing field, with shareholders holding the whip hand.

Today the Delaware Supreme Court will consider Paramount'a appeal against a Novemher 24 judgment by the state's chancery court. Judge Jack Jacohs hlocked the proposed $9.5bn friendly takeover of Paramount hy Viacom – the cable television company best known for its MTV pop music network – on the grounds that Paramount's board had not adequately considered a higher hostile offer from QVC Network, a television home shopping company headed hy Mr Barry Diller, a prominent figure in the Hollywood film industry.

He also threw out a special "lock-up" agreement under which Paramount gave Viacom the right to huy its shares at $69.14 each – the price of the original takeover agreement – if the company were sold to a higher bidder. He said the size and structure of the lock-ups, worth some $400m, were unprecedented and would discourage other hidders.

If the Supreme Court upholds the chancery court's judgment, victory in the Paramount battle will go to the highest hidder. If it accepts Paramount's appeal, QVC will probahly be forced to how out, leaving Viacom the victor.

Whatever the ruling, it will affect US takeover conduct which is largely determined by legal precedents set in the courts of Delaware.

The state enjoys this prominent role because in the US a company is incorporated under state rather than federal law.

And tiny Delaware, with few commercial advantages over other states, has set itself up as a congenial base with a pro-business legislature and a sophisticated body of corporate statutes, courts and lawyers. As a result, a majority of America's leading companies are incorporated there.

A legal touchstone for a board's duties in a takeover battle is the Delaware Supreme Court's 1985 judgment in the contest for cosmetics group Revlon. The court said that when it became clear to Revlon's board that the company was going to be sold, "the directors' role changed from defenders of the corporate bastion to auctioneers charged with getting the best price for stockholders".

In 1989, however, the court upheld the right of the board of Time Inc, the publishing group, to reject a hostile offer from Paramount in favour of a lower priced friendly one from entertainment group Warner Brothers. The reasoning was that it was the "business judgment" of Time's directors that a merger with Warner would be in the company's long-term strategic interests. "Directors are not obliged to abandon a deliberately conceived corporate plan for short-term shareholder profits unless there is clearly no basis to sustain the corporate strategy," the court said.

That ruling, which surprised much of the legal profession, gave corporate boards a powerful legal weapon against hostile bids. It contributed to the demise of the takeover wave of the 1980s – other factors may have been more important, including the collapse of the junk bond market which had financed many deals.

The Paramount case, the first hig US takeover battle for several years, provides Delaware with the opportunity to cast a fresh eye over its Time-Warner ruling.

If Judge Jacobs' decision is upheld, it will limit the scope of the 1989 verdict and put a degree of power in shareholders' hands. He ruled that Paramount's deal with Viacom did trigger "Revlon duties" to put the company up for auction, and that hy failing to give proper consideration to QVC's offer, the Paramount board had hreached its fiduciary obligations to investors.

Why is Paramount's position differant from Time's? Accordiog to Judge Jacohs, because the takeover involves not a merger but the sale of Paramount. Control of the group will pass to Mr Sumner Redstone, the chairman of Viacom, who owns 85 per cent of his company's voting stock. The deal therefore represeots the last chance for shareholders to ohtain a premium for control of the group.

Paramount will argue that if the judgment stands, a company with a controlling stockholder like Mr Redstone can never enter a strategic merger witb a publicly controlled company – except through an auction based oo short-term stock market valuations.

The new ruling, it argues, also "effectively eviscerates the husiness judgment of directors. It discourages hoards from developing strategic plans, because once a plan is announced a third party hidder can force the hoard to abandon its strategy and simply sell the company to the highest hidder."

But critics of Delaware's Time-Warner judgment argue that tbe takeover rules should always allow investors to sell their shares to the highest hidder, since a free market for corporate control creates capitalist efficiency. Cynics maintain that that ruling was motivated in part hy Delaware's desire to keep sweet the chairmen of American companies, who play an important role in deciding where businesses incorporate.

The court will face a delicate halancing act during the next few days as it weighs up its verdict in the Paramount case. On the one hand, it will hardly want to antagonise boards and undermine its own credihility hy stepping back from its Time-Warner judgment. On the other, it will be aware that corporate power is shifting from hoards to aggressive institutional investor groups, which ahominate anti-takeover devices and are still smarting from the Time-Warner judgment.

Courtaulds Textiles warns

By Andrew Bolger in London

Shares in Courtaulds Textiles fell 10 per cent yesterday after the UK group warned that annual pre-tax profits would be below market expectations.

The announcement was an unwelcome swansong from Mr Martin Taylor, chairman of Courtaulds Textiles, who next month starts his new role as chief executive of Barclays, the UK's largest bank. However, Mr Taylor, 41, who was head-hunted for the Barclays joh partly hecause of his skill at dealing with the press and City analysts, deniad feeling any embarrassment ahout giving the profits warning only three weeks before his departure. "I'd rather handle it than leave it to my colleagues."

Courtaulds Textiles said it was unlikely profits for the year to December 31 would match last year's £39m. Analysts, who had cut their estimates to £41m-£43m after lower than expected interim profits of £13.7m, yesterday trimmed their full-year forecasts to about £37m. The shares closed 54p lower at 489p.

The group had already reported difficult conditions in continental Europe in September. It said yesterday that trading had deteriorated further in October and November. Last year the region accounted for 18 per cent of sales. Mr Taylor said: "We made no money in Europe in the first half and we are not going to make any in the second."

Two thirds of group profits were usually made in the second half. It was only when management accounts for November were produced last week that the size of the shortfall became clear. The board was still expecting to recommend an increase in the final dividend.

Lex, Page 16; London SE, Page 27

Unilever to sell stake in Dutch textile company

By Ronald van de Krol in Amsterdam

Unilever, the Anglo-Dutch food and consumer products group, said it plans to sell its minority stake in Gamma, the Netherlands' largest textile company, in a transaction which would raise around Fl 200m ($105m) at current share prices.

The shares, representing nearly 30 per cent of Gamma's share capital, will be placed mainly with institutional investors. A company spokesman could not say when the placement would take place but he confirmed that it will yield a book profit. Goldman Sachs has been appointed to help in the disposal.

Unilever said the divestment was part of its strategy of concentrating its financial resources on core activities.

The announcement came after the close of bourse trading in Amsterdam, where Gamma's shares closed unchanged at Fl 98.50. The shares hit a 12-month high of Fl 100.50 in late November, up from a low of Fl 71.70 set in March.

Gamma, which has annual sales of Fl 1.55bn, recorded its first profit fall for 14 years in 1992, when net profit fell to Fl 64.8m from Fl 71.3m in 1991.

Besides making curtains, carpets and towels for the European market, Gamma also produces exotic printed fabrics sold mainly in western and central Africa.

NFC plans expansion after launching first rights issue

By Andrew Bolger in London

NFC, the UK-based transport and logistics group, yesterday launched a £263m ($391.87m) rights issue – the first since the group was privatised by an employee buy-out in 1982.

After the issue, NFC will have net cash of £89.4m – a turnround from gearing of 53 per cent. It plans to expand its distribution and house-moving businesses internationally.

The rights issue reflects NFC's unusual share structure. About 45 per cent of the company's shares are in private hands and 85 per cent of the group's 32,000 employees are shareholders.

The 1-for-4 issue is priced at 195p and NFC's shares closed 16p higher at 250p. Small shareholders who do not wish to take up their rights will be offered 14p per new share to which they are entitled.

Mr Peter Sherlock, NFC's new chief executive, said the issue would increase the number of shares available to institutional investors, but he stressed he did not want to lose NFC's distinctive culture – which includes an annual meeting attended by more than 1,000 shareholders.

He said: "It is much easier to articulate a philosophy of enhancing shareholder value if 85 per cent of the employees are shareholders. But we must not let it act as a restraint on the business."

Current employees – who constitute 14 per cent of the share register – have double voting rights, but only so long as their total stake is more than 10 per cent. Even if no employees take up their rights, their share of the register would only fall to 11 per cent, so there is no immediate threat to their special position, but it is clearly on the way out.

BZW will underwrite 62 per cent of the shares at 195p and the 38 per cent held by smaller shareholders at the higher price of 209p.

NFC said it would focus on the markets of the UK, North America and mainland Europe. The foundations would also be laid for entering the Asian and Pacific Rim markets, initially to serve European and North American customers.

NFC also announced annual results which showed a 17 per cent increase in pre-tax profits to £104.9m.

Results, Page 23; Lex, Page 16

Pharmacia to set up S Africa unit

By Hugh Carnegy in Stockholm

Pharmacia, the pharmaceutical manufacturer, yesterday became the first Swedish company to establish a direct presence in South Africa since Stockholm lifted sanctions at the beginning of this month.

The company, one of the world's top 20 drug makers, said it was setting up both a wholly-owned subsidiary and a 50-50 joint venture operation with Adcock-Ingram in which Pharmacia would invest SKr120m ($14m).

Pharmacia has long sold its products in South Africa through Adcock-Ingram and conducted clinical trials in the country, but it was prevented from having a direct presence because of sanctions which previously barred direct investment in South Africa by Swedish companies.

A spokesman for the Swedish Industry Federation said other Swedish companies which did not have established links with South Africa were likely to be more cautious because of uncertainty about the political and economic situation during the transition to majority rule.

Pharmacia, with annual turnover of around $3bn, was recently spun off from Procordia, a drugs and food group jointly controlled by the Swedish government and Volvo. The government is set to privatise its holding in Pharmacia next year, leaving Volvo as the largest shareholder.

Pernod trades a whiskey for a whisky

By John Ridding in Paris

Pernod Ricard, the French drinks group, yesterday announced it would swap one of its Irish whiskey brands for a Canadian whisky owned by Allied-Lyons of the UK.

The French group said the exchange of Tullamore Dew for Royal Canadian would allow it to expand its range of whiskies. It currently owns several Irish whiskeys, including Jamesons and Bushmills; Scotch whiskies such as Abelour; and a bourbon, Wild Turkey. However it does not have a Canadian whisky brand.

The deal will also give Allied-Lyons its first Irish whiskey. "It is a niche premium brand which does well in international duty free," said the UK group. "It is a good addition to our portfolio."

The deal involves only the distribution of the whiskies. Pernod's subsidiary, Irish Distillers, will continue to produce Tullamore Dew, while Allied-Lyons will produce Royal Canadian. The Canadian whisky brand is currently distributed by Hiram Walker, a subsidiary of the UK group.

Pernod said it would also receive payment for Tullamore Dew since it was more profitable than Royal Canadian. However it declined to disclose the amount.

Pernod's whisky business is its second-largest division, in terms of sales, after its aperitif drink. The company said whisky was one of the fastest growing segments of the French drinks market, although demand remained depressed in international markets.

● L'Union des Assurances de Paris (UAP), the French insurance group, announced yesterday that the advisory banks for its privatisation were to be Banque Lazard, Banque Nationale de Paris and Banque Worms, Reuter reports from Paris.

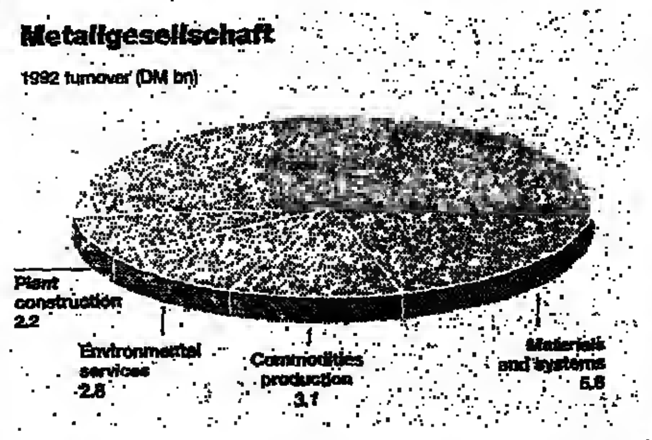
The UAP flotation is likely to go ahead after the sale of Elf Aquitaine, scheduled for early 1994.

Banks mop up an oil spillage

David Waller explains why Metallgesellschaft has a futures problem

Last Friday, Mr Heinz Schimmelbusch, chief executive of Metallgesellschaft, paid a visit to the twin towers of Deutsche Bank, just down the road from the loss-making conglomerate's own headquarters in the centre of Frankfurt.

At 8am, Mr Schimmelbusch, together with his finance director and one other senior executive, had an audience with Mr Ronaldo Schmitz, the Deutsche Bank main board director responsible for corporate finance and chairman of Metallgesellschaft's supervisory board.



It seems likely Mr Schimmelbusch then alerted Mr Schmitz to potential liquidity problems arising from the group's oil trading activities in the US, and requested new credit lines to stave off a possible cash crisis within the group's US operation, MG Corp.

The difficulties were sparked by a sharp fall in the oil price in recent months. This has given rise to the need for Metallgesellschaft to finance so-called "margin calls" – cash payouts – to cover part of the risk on oil futures.

Senior executives from Metallgesellschaft were obliged to skip the head-office party later that day and enter a round of negotiations with Deutsche and Dresdner Bank, Germany's two biggest banks which both happen to be significant shareholders in the metals, mining and industrial conglomerate.

The negotiations bore fruit around lunch-time on Monday, when Metallgesellschaft put out a one-paragraph statement saying it had secured additional lines of credit. However, news of the talks had already broken in that morning's edition of the Frankfurter Allgemeine newspaper: the statement could not prevent a large sell-off of the company's shares. They ended the day down 12 per cent.

The scale of the share-price reaction reflected worries about the underlying financial stability of the group. Metallgesellschaft has been badly hit by recession in Germany and the impact of cheap metal imports from the former eastern bloc.

Last month, Metallgesellschaft announced a loss of DM347m (£204.1m) for the year ended September, and said it would pass the dividend. Following this, the stock market clearly judged the latest risk as a potential straw to break the camel's back.

But was the share price reaction justified? According to Mr Hilmar Kopper, Deutsche Bank chief executive, it was not. He said it was not a question of existence-threatening risks at Metallgesellschaft, but rather of a short-term liquidity problem caused by a technicality.

"There has been too much excitement," he said. "We need to be more relaxed about this."

The New York-based MG Corp has built up a substantial business supplying physical oil and oil-related products such as diesel, gasoline and heating oil. As part of normal business practice, these contracts are hedged with a variety of instruments to neutralise the group's exposure in the event of sharp price movements.

The oil futures contract, however, has been running against MG Corp: when the oil price falls, contract-holders are obliged to make a margin call with the Nymex futures exchange. This is designed to smooth out the impact of an adverse change in prices. The oil price has dropped from $21 a barrel in May to less than $14 now.

For MG Corp, the need to find the cash imposes a liquidity strain, despite the fact that the company's risk is covered by its contract to sell physical oil at a future date. The risk enters a new order of magnitude only when the original contract to sell gasoline at a given price goes awry.

In its brief statement earlier this week, Metallgesellschaft gave no hint of this, saying only that it had paid all calls to date but needed new borrowing facilities to cover the possibility that the oil price will fall further. Metallgesellschaft made it clear yesterday it would publish further information next week.

The stockmarket, for one, appears to be giving the group the benefit of the doubt – the shares closed DM12 up at DM390 yesterday.

East Mids leads rise in UK power shares

By Michael Smith in London

Regional electricity companies in England and Wales saw a second day of strong share price growth after East Midlands Electricity unveiled a 19 per cent dividend increase on the back of pre-tax profits up 13 per cent at £64m ($95.5m).

Helped by an announcement that it was splitting the role of chief executive and chairman, East Midlands was among the main beneficiaries. Its shares rose 15p to 631p.

Other gains were Manweb, up 17p at 716p, and Norweb, up 15p at 703p.

East Midlands pushed up its interim dividend to 6.8p from 5.72p. The rise was slightly less than the 20 per cent bestowed by two other regional companies. But analysts saw scope for East Midlands to match others for the full year.

Mr Norman Askew, recruited from TI in July 1992, will become chief executive from April, replacing Mr John Harris in that role. Mr Harris will remain executive chairman. His dual role has been one reason why the company's shares have been among the least favoured in the sector.

Apart from East Midlands, only two regional electricity companies, Northern and Norweb, have chairmen who are also chief executive. Immediately after privatisation three years ago the role was combined in virtually all regional companies.

East Midlands' pre-tax profits of £64m in the six months to September 30 compare with £56.5m last time, restated to reflect new coal contracts which are weighted towards the second half of the year.

Turnover was £666.3m, against £681.5m, and earnings per share 22p, up from 18.9p.

East Midlands said it was on target to reduce costs in the core electricity business by £15m a year. The programme, costing £8m to implement, involves cutting 500 jobs, leaving it with 4,100 against about 4,650 at privatisation. The job reduction in the current year is about 300.

Mr Harris said the cost cutting would give the company a strong position to enter negotiations with the industry regulator in the forthcoming distribution business review. "We will do as well as anyone because of our cost base," he said.

Of the non-core activities, Ambassador in security was stagnant with profits of £900,000, and W.J. Furse in lightning protection rose 26 per cent.

People, Page 12; Lex, Page 16

ITT to spin off forestry unit to shareholders

By Martin Dickson in New York

ITT is to spin off its large forest products subsidiary, ITT Rayonier, to shareholders in a further move to simplify the US conglomerate.

Rayonier, acquired by ITT in 1968, has annual sales of about $1bn. It controls about 1.5m acres of timber resources and operates three pulp and two lumber mills.

The US conglomerate plans to distribute in February one share of Rayonier common stock for every four shares of ITT common, and one share of Rayonier for every 3.1595 shares of ITT series N convertible stock.

The new company will have about 30m shares outstanding and expects to be listed on the New York Stock Exchange.

ITT will retain no interest in the business.

The move will eliminate the group's exposure to a highly cyclical, capital intensive industry which is suffering from depressed international paper and pulp prices.

Fitch Investors Service, the credit agency, noted while affirming ITT's senior debt rating that Rayonier accounted for 12 per cent of ITT's consolidated capital expenditure and 14 per cent of debt while only generating 8 per cent of consolidated operating profit.

Mr Rand Araskog, ITT chairman, said that "after detailed analysis, that included senior Rayonier management, we concluded that Rayonier's financial and operational profile and capital expenditure requirements could best be served by an independent, publicly traded company".

Other important initiatives by ITT over the past year include refocusing its consumer finance business, and expansion of its automotive components business through the $400m acquisition of a General Motors subsidiary.

In the first nine months of this year, Rayonier reported income of $112m on sales of $719m, up from $102m on sales of $717m in the same period of last year.

GM media purchasing brought under one roof

By Richard Tomkins in New York

General Motors, the world's biggest car maker, yesterday announced that all its media-buying activities – with an estimated annual spend approaching $1bn a year – were to be consolidated under the umbrella of Interpublic, the world's second largest group of advertising agencies.

At present GM's media buying is split between several agencies. Two of them – Lintas: Worldwide and McCann-Erickson – are Interpublic subsidiaries. The two biggest losers from the new arrangement are believed to be Leo Burnett and D'Arcy Masius Benton & Bowles.

Two units will be formed within Interpublic to look after tha GM account, one of them will deal with television buying and the other print buying.

The new national broadcast unit will be headed by Mr Marc Goldstein, currently executive vice-president and director of national broadcast media and planning at Lintas: USA.

The print buying unit will be headed by Ms Karen Ritchie, presently senior vice-president and director of media services for McCann-Erickson Detroit.

Until a few years ago each GM division handled its own media buying, but in 1986 the group started consolidating this activity in the search for greater efficiency.

However, GM said divisions would still independently employ advertising agencies to create and develop campaigns for GM products.

US aims to recycle 50% of its paper by 2000

By Martin Dickson

The US paper industry said yesterday it wanted to recover for recycling about 50 per cent of all the paper Americans use in the year 2000.

It currently stands at 40 per cent.

The goal was announced as the American Forest & Paper Association, an industry umbrella body, released a survey showing that US pulp, paper and paperboard manufacturing capacity will grow slowly over the next three years. However, it did show there would be a much faster expansion of recycling capacity.

In 1990, the paper industry set a goal of recovering 40 per cent of paper by 1995, but it said yesterday it had reached this target two years early.

Mr Red Cavaney, president of the Forest & Paper Association, said that "in 1986 twice as much paper was being landfilled as recovered for recycling.

"Today, for the first time ever, Americans recover more paper for recycling and re-use than they send to landfills."

He added that a 50 per cent recovery rate, which would be a large challenge to reach and appeared about the maximum possible, was unprecedented in a country as large and sparsely populated as the US.

Achieving it would put the country ahead of Europe and on a par with Japan, which had achieved a rate of 50 per cent to 51 per cent for the past decade.

The industry's capacity survey shows growth expected to average just 1.9 per cent a year through to 1995, well below the previous 10-year average of 2.3 per cent.

It will bring total paper and paperboard capacity to an estimated 96.3m annual tons in 1996.

Growth in domestic wood pulp capacity is expected to be even lower, at only 0.6 per cent a year.

However, recycling capacity is expected to grow at an annual rate of 6.8 per cent.

Super shares demise lifts News Corp

By Nikki Tait in Sydney

Shares in Mr Rupert Murdoch's News Corporation closed up about 9 per cent at A$10.90 on Wednesday after the group said it had withdrawn its plan to issue shares with super voting rights.

It claimed that the lengthening timetable for necessary approvals for the shares had become commercially unrealistic.

More than 4m News Corp shares changed hands on Wednesday and the announcement, together with a strong trend in metal prices, was thought responsible for a rise in the Australian stock market.

The Australian Investment Managers' Group, which represents most fund management groups in the region, hailed News's backdown as a victory for the one share, one vote principle.

In a letter to the Australian stock exchange (ASX), the media and film group's lawyers noted the earliest date on which the super shares could be issued – assuming permission was granted – was June 1994, eight months after the scheme was mooted.

"Unfortunately, the uncertainty and substantial lead times now involved... are not consistent with the needs faced by News Corp," they said.

Had the scheme gone ahead, News would probably have been invulnerable to takeover, and the share price increase reflected the restoration of this possibility.

However, some analysts speculated that Mr Murdoch had deals or joint venture arrangements in the pipeline and had found an alternative way of structuring these, so that his 33 per cent family interest in News's equity would not be diluted.

The super share plan, announced by Mr Murdoch at a News annual meeting in October, caused a storm of controversy in Australia where share structures involving differential voting rights are not permitted.

It involved issuing the new shares with multiple voting rights to existing shareholders on a pro rata basis, which critics claimed would have allowed Mr Murdoch to establish an entrenched control position.

He could, for example, have sold some of his ordinary shares, bought more super shares, and pushed his interest up from 33 per cent to over 40 per cent for no net outlay.

News, however, always claimed the plan was devised to facilitate strategic deals, although no details were supplied.

It had hoped for a provisional decision from the Australian stock exchange, over whether it would change its listing rules to accommodate the scheme, in November.

According to the lawyers' letter, that date shifted to December, a timescale News continued to "knit in with".

Last week, talks between the attorney-general and the ASX led to a much longer consultative process, and News faced six more months of uncertainty. As a result, its directors, meeting in London on Tuesday, decided to withdraw the scheme. Yesterday, the ASX expressed sympathy for News's predicament.

"The time frame was blowing out quite a bit, and that's something the exchange regrets," said Mr Ray Schoer, head of the companies' division.

In spite of News's withdrawal, the ASX said it would continue to assess the merits of differential voting rights, although its inquiry may proceed in a more leisurely fashion.

The ASX said it had received comments from international exchanges – including London and New York – and felt there was good sense in establishing where different countries stood on this issue, before specific proposals were presented again.

There had been fears that News would simply have moved its listing to New York had the ASX refused to moderate its listing rules – although the stance of the London and New York markets on differential voting rights is less than clear-cut.

YPF plans $1.25bn investment programme

By John Barham in Buenos Aires

YPF, Argentina's privatised oil company, plans to invest $1.25bn next year to increase output, modernise production capacity and upgrade its retail network.

It announced an $850m bond programme, the largest of its kind by an Argentine company.

The company plans to invest $650m to increase production by 20 per cent in 1994. Output is 380,000 b/d, and YPF aims to produce 450,000 b/d by 1995. It said much of the increased production would be exported to Chile through a trans-Andean pipeline to be inaugurated next year.

Mr Jose Estenssoro, YPF president, said the company would invest $300m in exploration to lift reserves. A further $100m would be used to upgrade operations to meet tougher environmental standards as part of a $500m five-year plan.

The remaining $200m would be used to expand and modernise refinery capacity and retail network.

YPF was partially privatised in June when the government sold 45 per cent of the company for $3.04bn.

The investment programme is to be financed from cashflow and debt. In the nine months to September, YPF reported net income of $394m, against $145m in the same period of 1992.

Mr Cedric Bridger, vice-president, said YPF would launch $850m-worth of bonds, to be spearheaded early next year by a $350m fixed rate, 10-year Yankee bond programme. Mr Bridger said the Yankee bonds, to be placed by CS First Boston, would be used to retire $200m-worth of costly local and World Bank debt and replenish working capital.

He said pricing would be decided after the government had placed $750m-worth of Global bonds today. YPF hopes to achieve similar or better terms for its bonds.

The Yankee bonds will be followed by a $500m medium-term global note programme.

Brazil cancels PQU privatisation auction

By Patrick McCurry in São Paulo

The privatisation auction of Pétroquimica União, the Brazilian petrochemical company, has been cancelled because less than 7 per cent of the shares on offer were bought.

The last time a privatisation auction was cancelled was in 1991, for Enasa, a small river transportation company.

The PQU auction had been postponed five times and there are doubts whether the company will be offered for sale again under the present administration, which leaves office in early 1995.

The government valued the company at $559m.

The cancellation was expected after Monday's auction when only 3.07m shares of the 50m on offer were bought.

In a second session on Tuesday, only 378,000 more shares were bought and the auction was declared invalid by the Rio de Janeiro stock exchange.

PQU's main prospective buyer, a consortium of petrochemical-related companies including Union Carbide and Shell Brasil, decided not to take part because of a dispute with the government over a new pricing formula for petrochemical naphtha, PQU's main raw material.

The government's proposed formula, which it has still not officially announced, will link naphtha prices to a basket of imported crude oils and imported naphtha.

The cancellation leaves PQU controlled by Petroquisa, a subsidiary of Petrobras, the government-owned oil company.

Merck executive to head Upjohn

By Patrick Harverson in New York

Mr John Zabriskie, executive vice-president and head of manufacturing at the US drugs group Merck, is leaving the company to take over as chairman and chief executive of Upjohn, a chief rival.

The appointment ends the search for a new Upjohn chief executive that began last April, when the previous chairman and chief executive, Mr Theodore Cooper, died of cancer.

The company said Mr Ley Smith, Upjohn chief operating officer, would continue to serve as interim chief executive until the 54-year-old Mr Zabriskie assumed his duties in the new year.

Mr Zabriskie said he was sad to leave Merck after 28 years, but that the "opportunity to lead a company in my own right became an irresistible challenge".

Mr Joseph Riccardo, an analyst with the Wall Street broking house Bear Stearns, hailed Upjohn's choice. "John Zabriskie is a seasoned pharmaceuticals executive who had a very good career at Merck. He is a good manager and leader and will be a valuable asset to Upjohn."

Mr Zabriskie's main challenge at Upjohn will be to steer the company through what could be a difficult transition.

Although it has promising products under development, Upjohn faces the expiration of US patents on several of its leading drugs; new legislation affecting the tax charge for its Puerto Rican manufacturing facilities; and a healthcare environment that President Clinton's planned reforms have turned increasingly hostile.

The departure of Mr Zabriskie, meanwhile, clouds the issue of who will succeed Mr Roy Vagelos as chairman and chief executive of the world's largest drugs group when he retires next year.

Mr Richard Markham, Merck's former chief operating officer, was seen as heir apparent until he resigned in July.

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INTERNATIONAL COMPANIES AND FINANCE

Henderson issues shares to pay debt

By Louise Lucas in Hong Kong

Henderson Investment, the majority-controlled investment arm of Henderson Land, has issued HK$2bn (US$259m) worth of shares to pay part of the HK$3.3bn debt it raised to buy an interest in Miramar Hotel and Investment earlier in the year.

The shares were placed at HK$6.90, a discount of around 3.5 per cent to Tuesday's closing price. A total of 291m was issued, equal to 12.8 per cent of the company's existing capital.

The placement – originally set at HK$1.5bn – was immediately supplemented with a further HK$503.7m to satisfy excess demand.

Mr William Wong, company secretary, said the cash would be used to reduce loans arising from the company's acquisition of 34.8 per cent in Miramar in July. Henderson emerged as a white knight when the hotel was the subject of a hostile takeover by Cheung Kong and Citic Pacific.

Mr Wong said that it was a good time to raise cash, with the local stockmarket hitting record highs. The latest cash call by the Henderson group follows two bond issues by Henderson Land, which owns 72.2 per cent of Henderson Investments.

The parent company raised US$460m in Euroconvertibles and US$300m in Eurobonds this year. The former are to convert into shares in the company's China property interests, which it plans to spin off in a separate listing.

This week's placement is the third largest on the Hong Kong exchange this year, excluding those linked to new listings. Chinese conglomerate Citic Pacific raised HK$7.17bn in January and Hutchison Whampoa, the hong whose interests span container terminals, supermarkets and telecommunications, made a HK$4.57bn cash call in May.

Rembrandt paints a broader picture

By Philip Gawith in Johannesburg

Rembrandt Group, the South African tobacco-based conglomerate, performed in line with market expectations to record a 16.6 per cent increase in net income to R530.8m ($157.8) in the six months to September, compared with R455.2m a year earlier.

The results are notable for the increased level of disclosure in the income statement compared with previous years, when the group had been notoriously shy in its disclosure. Rembrandt is controlled by the Cape-based Rupert family, which also controls Richemont, the Swiss based tobacco and luxury goods group.

For the first time, a turnover figure is disclosed, showing an increase of 9.6 per cent to R2.22bn. There is no indication, however, of how much of this comes from the group's valuable tobacco interests, which normally contribute about 40 per cent of bottom line earnings.

The results also break new ground in that pre-tax income is broken down between operating income and dividend income. Operating income rose by 7.7 per cent to R532.5m and dividend income by 9.8 per cent to R133.9m.

Operating income includes the group's tobacco interests, where analysts estimate pre-tax profits grew by between 5 and 8 per cent, and Huntcor, a holding company for Robertsons, a food company, the TSB sugar group, the Rainbow poultry group and Rembrandt's timber investments. The biggest change was the fall in Rainbow's losses, which were R77m in the year to March.

Dividend income comes from investments in mining (Gencor, Gold Fields and Trans-Hex), banking (principally ABSA, the country's largest bank), and assorted industrial investments, including a stake in the Total oil group.

Japan learns the American Way

Banks are taking a new approach to bad debts, says **Robert Thomson**

When Mr Yasushi Mieno, the Bank of Japan governor, suggested this week that the country's banks could learn from the US experience of dealing decisively with bad loans, he was conceding that the Japanese Way has not worked.

The Japanese Way was to sit on bad loans for a decade or more. It came with the confidence that Japanese banks were incapable of failing, and encouraged the idea that the 11 leading commercial banks were all in exactly the same shape, walking the same line at roughly the same pace.

Mr Mieno's statement highlights a remarkable change in thinking in Japan over the past year. Bankers had laughed at the thought of copying the US method of taking a big hit, clearing the balance sheet and starting afresh. A finance ministry official insisted early last year that "you will never see that kind of thing here".

Japanese banks will not suddenly swallow their bad loans whole, but Mr Mieno's statements indicate that further deregulation is needed in the financial markets to speed the process. He has previously suggested that both the strong and the weak banks should be more subject to markets and less to the whims of the finance ministry.

The banks' sense of urgency in dealing with their bad loans has been heightened by the weakness of stock prices, which slipped another 2.3 per cent yesterday. When stock prices fall, so do the banks' unrealised gains on equities, which have been seen as their buffer against bad loans.

Banks are also nervous because they are noticing a change in the structure of their non-performing loans. The bubble of the late 1980s is generally seen as the cause of the burden, but another layer of bad loans is appearing and will push their totals far higher than envisaged.

Bankruptcy figures collected by Teikoku Data Bank, a credit research company, suggest that a record 63 per cent of the 1,258 corporate failures in October were caused by the recession. Banks had expected that their non-performing loan totals would peak as the bubble worked its way out of the system, but the recession is adding to their woes.

The banks have also wasted opportunities to deal with their non-performing loans, which at the 21 leading institutions rose 7.7 per cent to Y13,800bn ($128bn) in the first half to September. This narrowly defined figure does not reveal the full extent of exposure, widely estimated to be Y30,000bn.

Falling interest rates over the past two fiscal years increased banks' core profits, but the banks only assaulted the mountain of loans this year. In the six months just ended, core profits at the 11 largest banks slipped 10.6 per cent, and the weak demand for new loans and an official discount rate at a record low of 1.75 per cent do not create much margin for improvement.

To cope with the burden, Mr Mieno suggested that Japan's financial markets would need to be further liberalised to enable banks to securitise their non-performing loans. His concern was that the banks have become too risk-averse and could worsen the recession by refusing to provide fresh finance to companies in need.

Yasushi Mieno: unhappy with Japanese banks' attitudes

"The many functions of the financial markets, particularly the transfer of risk, played a major part in the recovery of US (banking) companies. We must examine if there is room to use those functions in Japan's financial system," Mr Mieno said.

The Bank of Japan has already told the finance ministry that securitisation is needed, and the ministry formed a committee in late November to examine the establishment of a secondary market for bad loans. But the first report is not due until March, and the ministry is said to be irritated that the bank is taking the lead.

"The ministry people don't like following the bank's idea. They have been very slow to respond," a Japanese banker said.

The finance ministry is central to the Japanese Way of dealing with bad loans, providing guidelines on how much the banks should write-off and encouraging them to walk at roughly the same pace. The Bank of Japan would prefer that stronger banks deal with their problem loans more quickly.

Interim results and non-performing loans announced last month highlighted the differences in the banks' health. Mitsubishi Bank, the strongest of Japan's banks, has non-performing loans equivalent to 1.9 per cent of its total loans, while the figure was 5.38 per cent at Hokkaido Takushoku Bank, perceived to be one of the more exposed banks.

If the ministry remains reluctant to allow securitisation, another possibility is the establishment of a government-backed land buying agency. Members of Japan's governing coalition suggested this week that the agency could buy property collateral held by the banks, either using the land for government buildings or reselling it when the market improves.

This would be more effective than the banks' own Co-operative Credit Purchasing Company, which assesses the collateral on non-performing loans and buys the loan credit, enabling the seller bank to write-off the loss. The CCPC uses the banks' money to buy their own loans and is more a response to tough tax laws than the vehicle which will move the mountain of bad loans.

Premier Group interim earnings up 11%

By Philip Gawith

Premier Group, one of South Africa's leading food companies, overcame recessionary trading conditions to record an 11 per cent increase in attributable earnings to R109.3m ($32.5m) in the six months to October, against R98.1m a year earlier.

Earnings per share rose to 132 cents from 119 cents and the dividend was increased to 40 cents per share from 36 cents. Mr Peter Wrighton, chairman, said full-year results would depend on trading during the Christmas and Easter periods and the extent of disruption in the run-up to next April's elections.

He added, however, that the group was "optimistic about the future and cautiously confident that 1994 will see major breakthroughs ... heralding a new era of economic growth".

On the trading side, turnover rose by 26 per cent to R7.17bn, including United Pharmaceutical Distributors and Bonnita. If these are excluded, and like compared with like, turnover rose by only 6 per cent.

This is lower than the overall inflation rate in the country (though food inflation has recently sunk as low as 2.4 per cent) and indicates the severity of the economic recession.

Trading profit rose by 19 per cent to R236.4m but net interest paid rose substantially to R40.4m from R21.4m owing to the consolidation of UPD and Bonnita and expansion of the group. Total borrowings rose to R747m from R279.7m.

Mr Wrighton said Premier Food and retail store Clicks had underperformed, but Metro Cash and Carry and Premier Pharmaceuticals performed well.

Prices for electricity generated by the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	19.22	19.07	19.07
0100	23.41	24.47	26.18
0130	23.41	26.00	27.71
0200	23.41	26.00	27.71
0230	23.41	26.00	27.71
0300	23.41	26.00	27.71
0330	23.41	26.00	27.71
0400	23.41	18.24	18.24
0430	23.08	18.06	18.06
0500	18.11	18.06	18.06
0530	18.07	23.81	25.52
0600	18.07	18.45	18.45
0630	18.15	18.24	18.24
0700	23.44	24.11	25.82
0730	23.50	25.12	26.83
0800	24.03	25.12	26.83
0830	24.03	25.12	26.83
0900	24.03	26.04	27.75
0930	30.24	31.10	32.81
1000	30.24	31.10	32.81
1030	30.24	31.10	32.81
1100	28.55	31.10	32.81
1130	28.55	25.12	26.83
1200	28.55	26.06	27.77
1230	28.55	26.06	27.77
1300	24.03	26.04	27.75
1330	23.71	25.12	26.83
1400	23.71	25.12	26.83
1430	23.71	24.53	26.24
1500	23.71	25.12	26.83
1530	23.71	25.12	26.83
1600	24.48	24.37	26.08
1630	34.08	36.06	38.12
1700	43.94	35.77	38.49
1730	43.88	47.15	49.79
1800	40.37	45.94	48.37
1830	30.54	35.42	37.30
1900	26.21	30.47	32.23
1930	25.87	30.34	32.06
2000	24.14	26.85	28.56
2030	24.33	25.80	27.51
2100	24.08	24.53	26.24
2130	24.08	24.47	26.18
2200	24.08	24.47	26.18
2230	23.50	24.47	26.18
2300	19.20	24.47	26.18
2330	18.07	24.11	25.82
2400	18.04	18.38	18.38

INTERNATIONAL CAPITAL MARKETS

Successful auction gives further boost to UK gilts

By Sara Webb in London and Frank McGurty in New York

The Bank of England's successful auction of UK government bonds gave the market a further boost, with long-dated prices closing up a half to three-quarters of a point.

The Bank sold £3bn of 6¾ per cent Treasury stock due 2004 taking the size of the issue to £6.25bn. The lowest accepted price was 101.26, yielding 6.51 per cent, while the highest was 101.29, yielding 6.50 per cent.

The cover, or ratio of bids to offers, was much higher than expected at 2.19 times, reflecting strong demand for the issue, which will take over as the new liquid 10-year benchmark next year.

"There was enough demand out there for the Bank to sell £6bn of stock," exclaimed one dealer. The Bank announced a further £1.2bn in tap issues in the afternoon, available for dealing from today. Dealers do not expect this to halt the market's momentum and predict that prices will remain firm.

GOVERNMENT BONDS

The tap stocks include £400m of 6 per cent stock due 1999; £400m of 8 per cent due 2013; £200m of 4⅝ per cent index-linked gilts due 1998; and £200m of 2½ per cent index-linked due 2024.

Dealers noted strong demand from domestic and overseas investors as well as from proprietary traders.

■ The US Treasury market drifted lower as traders bided their time ahead of today's November producer price data.

By midday, the benchmark 30-year bond was 1/32 easier at 101 1/32, yielding 6.166 per cent, and the two-year note down 1/32 to 100 3/32, yielding 4.183 per cent.

With the report on wholesale prices due out this morning, activity was listless for a second straight session.

The lack of direction stemmed in part from the conviction that the data will provide a favourable reading on inflation, with a 0.2 per cent uptick generally forecast.

That optimism was supported by a sense that it would take very bad news to rattle the market, in view of its resilient response to last week's strong employment figures and a recent series of veiled warnings on inflation by Federal Reserve governors.

As expected, the Fed's Beige Book summary of economic activity, released at midday, presented no obstacle for bonds. It painted another picture of low inflation and moderate growth. On the announcement, the long bond returned to near its opening level after slipping about ¼ of a point during the morning.

■ The strength of the French franc, combined with optimism about the progress being made on the Gatt talks, helped push French government bond yields sharply lower across much of the yield curve.

The franc returned to its former narrow ERM trading range for the first time since the summer currency tensions. Bonds rallied and the Matif December futures contract ended up 0.60 at 125.12.

French bonds outperformed their German counterparts, with the 10-year yield spread narrowing to 8 basis points, from 16 points on Tuesday and 22 points last week.

Dealers said the recent disappointing economic news – lower than expected third-quarter growth and a big rise in bankruptcies – together with the franc's strength, ought to encourage an interest rate cut, although this was not reflected in yesterday's smallish move in the Pibor contract.

■ German government bonds rallied late in the day, encouraged by the rise in the other main European markets. The main focus was the sale of the 6 per cent bund due 2016, sold at average yield of 6.24 per cent, or 41 basis points above the 10-year benchmark.

The Bundesbank said it had accepted DM4.363bn in bids for the 6 per cent 22½-year bonds. All bids at 97.06 and above were accepted and the average yield was 6.24 per cent. Also, DM1.637bn in bonds were allocated to the central bank for market intervention purposes.

■ The Dutch government bond market closed higher, helped by continued strong demand for the new 10-year state bond. Sales of the 5.75 per cent bond due 2004 amounted to Fl 11bn at an average yield of 5.62 per cent.

■ Elsewhere in Europe, Belgian government bonds rallied, helped by the strength of the currency, with the spread over German 10-year bonds narrowing from 91 basis points to 85 basis points.

UK banks intend to increase lending

By John Gapper, Banking Editor

Banks operating in the UK have grown in confidence following the recovery in their earnings and plan to lend more to businesses over the next 12 months, a survey* of 175 UK and foreign banks has found.

The survey by the Association of Corporate Treasurers and the Bank Relationship Consultancy found that over half the banks were already planning to increase their loan books, and 70 per cent intended to do so within 12 months.

The publication of the survey follows a fall in margins on loans this year to large corporations considered the equivalent of US investment grade. Banks have been trying to increase their low risk lending.

About a third of banks surveyed believed margins were increasing in corporate lending as a whole, and half expected them to remain the same. About half the banks expect to see a reduction in margins within 12 months.

Mr Gerald Leahy, director general of the association, said the switch in bank attitudes was encouraging, given that one bank executive had predicted at the beginning of the year that banks would be reluctant to lend.

Mr Leahy said the remaining question was whether banks would be willing to lend to established medium-sized companies, although there was evidence that they were starting to seek high returns on more risky loans.

The survey found that manufacturing, other banks and utilities were the industrial sectors banks favoured most for lending, while real estate, construction and leisure remained out of favour.

* *The Bank Survey - Corporate Banking; The Bank Relationship Consultancy, 2/8 Victoria Avenue, Bishopsgate, London EC2M 4NS; £150.*

SG Warburg launches Indo-China warrants

By Tracy Corrigan

SG Warburg has launched an issue of "Indo-China" warrants on a basket of seven Asian stocks designed to give investors exposure to the expanding economy of Vietnam.

All seven companies have a large investment in or substantial trade with Vietnam, although none are based there.

The companies are Accor Asia Pacific, an Australian-based hotel management company; Singapore-based Asia Pacific Breweries, which has a brewery in Vietnam; Fraser & Neave which, among other interests, runs the Coca-Cola franchise in Vietnam; Liang Court Holdings, a Singapore-based property company with several projects in Vietnam; Luks Industrial, the Hong Kong-listed company which has invested some $80m in projects in Vietnam, and Meiwa Trading, part of the Mitsubishi group.

The warrants are structured in this way because Vietnamese stocks are not available to foreign investors. In addition, all the companies have a broad exposure to south-east Asia, so the warrants may perform well, even if the Vietnamese market does not live up to expectations.

Broad demand for Argentina

By Antonia Sharpe

The Republic of Argentina's widely-expected $750m global bond offering dominated a busy day of new issuance in the international bond market yesterday.

Joint lead managers Merrill Lynch and Salomon Brothers said that a good portion of Argentina's 10-year deal had been pre-placed as a result of an international roadshow which finished on Monday in New York.

Although demand for the bonds was reported to be wide-spread, a large proportion is likely to flow into the hands of US investors, who have a bullish perception of Argentina's credit.

The sovereign borrower is currently rated B1 by Moody's and BB- by Standard & Poor's. Both these ratings are speculative grade but there is a view in the market that Argentina could be awarded an investment grade rating within a couple of years.

Yesterday's deal, which could be the last significant international bond offering of the year, further extends the range of maturities available in Argentine paper. Prior to its first global bond offering, Argentina's longest maturity was seven years.

INTERNATIONAL BONDS

The bonds are scheduled to be priced today to yield between 280 and 285 basis points over US Treasuries. The scale of demand raised hopes that the bonds would be priced at the tighter end of the range.

Elsewhere, activity in the Euroyen sector picked up as the Kingdom of Sweden and LKB Baden-Württemberg took advantage of arbitrage opportunities in the 10-year area of the yield curve.

Sweden raised Y50bn through an offering of 10-year Eurobonds priced to yield 16 basis points over the No 157 Japanese government bond, the current 10-year benchmark.

Syndicate managers said that Sweden's bonds looked expensive when compared with LKB's Y40bn 10-year issue, which offered investors a yield spread of 20 basis points over JGBs.

LKB is rated triple-A by both Moody's and S&P while Sweden is rated Aa2 by Moody's and AA plus by S&P.

An official at Yamaichi, which arranged the Sweden deal, said that the spread on the bonds was justified by their zero risk weighting, as opposed to the 20 per cent risk weighting on LKB's bonds, and also by their greater liquidity. In addition, he said that many investors regarded the Kingdom as an improving sovereign credit.

When Sweden's bonds were freed to trade, they slipped to 99.70 bid from an issue price of par and the spread widened slightly to 18 basis points over JGBs.

By contrast, LKB's issue, the proceeds of which were swapped into floating D-Marks, was not freed to trade by late yesterday.

Syndicate managers expect more issuance in the Euroyen sector in the near future as borrowers take advantage of the low interest rates in Japan.

The Republic of Finland is expected to launch a Y45bn offering of five-year Eurobonds today, via Daiwa, and Salomon Brothers is likely to launch a £100m, 10-year Eurobond offering for itself priced to yield between 125 and 135 basis points over 10-year gilts.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Republic of Argentina	750	(a)#	(a)R	Dec.2003	1.25R	(a) (5¾%-03)	M.Lynch/Sal.Salomon
Cheung Kong Finance(Cay)(b)‡‡	600	(b)	100.00R	Jan.2001	0.375R	-	Goldman Sachs Intl.
Banco Safra	150	7.75#	99.642R	Dec.1996	1.00R	+330(4¾%-96)	Bear Stearns Intl.
LB Rheinland-Pfalz‡	100	(c)	99.50R	Dec.2005	0.50R	-	Merrill Lynch Intl.
Lippo Treasury(d)*§	90	1.25#	100.00	Dec.2000	2.50	-	SBC, Zurich
Klabin Fabricadora(e)	60	10.00#	98.89R	Dec.2001	1.125R	+475 (e)	JP Morgan Securities
STERLING							
First No. 3(f)‡	92	(f)	99.83R	Oct.2018	0.25R	-	Baring Brothers & Co.
YEN							
Kingdom of Sweden	50bn	3.50	100.00R	Jan.2004	0.325R	+16 (4½%-03)	Yamaichi Intl. (Europe)
LKB Baden-Württemberg Fin.	40bn	3.50	99.858R	Jan.2004	0.325R	+20 (4½%-03)	Nomura International
NSK(g)	20bn	3.10	100.00R	Mar.1998	0.30R	-	Yamaichi Intl. (Europe)
Mitsui & Co. USA(g)	10bn	3.40	100.31R	Apr.2001	0.61R	-	Sakura Finance Intl.
NSK(g,h)	10bn	2.80	100.25R	Mar.1998	0.30R	-	Fuji Intl. Finance
CANADIAN DOLLARS							
Norwest Financial Canada(i)	100	8.25	99.075R	Dec.1998	0.275R	+53 (8½%-98)	Merrill Lynch Intl.
AUSTRALIAN DOLLARS							
World Bank(j)	100	5.50	100.90	Jan.1997	1.50	-	CBA

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Private placement. §Convertible. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Priced today at 280-285bp over Treasuries. b) Coupon: 3-month Libor +0.6% for 1st 3 years and +0.7% thereafter. Callable and puttable on any interest payment date from Jan.1997 at par. c) Coupon pays 6-month Libor - 0.25%; min. 5%, max. 8%. d) Fixing: 13/12/93. Callable from 31/12/95, subject to 130% rule, at 104% declining 1% per annum. Callable and puttable on 31/12/98 at 128%. e) Puttable on 20/12/98 at 98.81%. Spread is over interpolated yield curve. f) Amortising issue: average life 4 years. Coupon: 3-month Libor + 0.375%. Callable from Jan.1998 at par. Substitution option to Jan.1996. £100m tap facility to Jan.1996. Simultaneous offering of mezzanine notes. g) Short 1st coupon. h) Puttable on 24/3/97 at par. i) Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/02	121.6100	+0.200	6.72	6.80	6.51
Belgium		9.000	03/03	115.6800	+0.560	6.67	6.83	7.04
Canada*		7.500	12/03	105.6500	-0.150	6.71	6.64	6.81
Denmark		8.000	05/03	111.9000	+0.250	6.28	6.40	6.45
France	BTAN	8.500	05/98	108.4100	+0.040	5.26	6.07	6.10
	OAT	6.750	10/03	103.2100	+0.690	5.99	6.03	6.05
Germany		8.000	09/03	101.3900	+0.150	5.61	5.66	5.90
Italy		9.000	10/03	-	-	8.47	8.04	[illegible]
Japan	No 119	4.800	06/99	111.1820	+0.210	2.50	2.60	2.66
	No 157	4.500	06/03	108.7290	+0.080	3.17	3.34	3.51
Netherlands		6.500	04/03	105.2800	+0.280	5.75	5.81	5.84
Spain		10.300	10/03	-	-	8.53	8.67	[illegible]
UK Gilts		8.750	01/99	114-15	+12/32	5.70	5.83	6.20
		8.000	06/03	111-14	+14/32	6.38	6.50	6.85
		9.000	10/08	121-26	+23/32	6.67	6.74	7.20
US Treasury*		5.750	08/03	100-12	+1/32	5.70	5.78	5.68
		6.250	08/23	100-30	+1/32	6.18	6.27	6.19
ECU (French Govt)		8.000	04/03	112.6000	+0.700	6.14	6.39	6.44

London closing, *New York mid-day. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	124.54	125.18	+0.58	125.12	124.52	93,372	105,163
Mar	128.36	129.04	+0.70	129.04	128.34	100,809	97,229
Jun	127.78	128.46	+0.70	128.00	127.78	367	3,154

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	Mar	Jun	PUTS Jan	Mar	Jun
125	-	-	-	-	0.12	0.48
126	-	3.19	-	-	0.23	-
127	2.07	2.36	-	0.06	0.39	-
128	1.17	1.64	1.77	0.17	0.64	-
129	0.49	1.06	1.27	0.49	1.06	-
130	0.11	0.66	0.88	-	-	-

Est. vol. total, Calls 55,640 Puts 19,396. Previous day's open int., Calls 190,689 Puts 169,394.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	100.11	100.38	+0.24	100.48	100.05	89759	138837
Jun	100.10	100.33	+0.24	100.12	100.09	129	1036

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Mar	Jun	PUTS Mar	Jun
10000	0.91	1.26	0.53	0.93
10050	0.65	1.00	0.77	1.17
10100	0.45	0.79	1.07	1.46

Est. vol. total, Calls 11330 Puts 9051. Previous day's open int. Calls 125822 Puts 75886

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	100.18	103.34	+0.14	103.34	103.17	888	9501

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.15	116.61	+1.41	117.00	114.90	27361	79018
Jun		116.76	+1.41			0	27

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	Jun	PUTS Mar	Jun
11650	2.01	3.14	1.90	2.88
11700	1.75	2.90	2.14	3.14
11750	1.51	2.67	2.40	3.41

Est. vol. total, Calls 3978 Puts 2484. Previous day's open int., Calls 29993 Puts 29382

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF) Dec.7

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.20	103.37	+0.67	103.50	103.20	27,606	59,358
Mar	103.55	103.57	+0.76	103.70	103.45	13,061	47,717
Jun		104.00					50

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	118-00	118-22	+0-15	118-24	118-00	2724	14733
Mar	117-09	117-29	+0-16	118-03	117-05	79791	122070
Jun		117-07	+0-16			0	69

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Mar	Jun	PUTS Mar	Jun
117	1-62	2-19	1-04	2-05
118	1-23	1-53	1-32	2-39
119	0-62	1-27	2-04	3-13

Est. vol. total, Calls 5023 Puts 3434. Previous day's open int., Calls 50500 Puts 20981

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	120.64	121.22	+0.56	121.22	120.58	2,907	8,448
Mar	120.14	120.72	+0.56	120.70	120.14	1,184	8,856

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	117-11	117-07	-0-05	117-14	117-01	18,562	71,321
Mar	116-04	115-30	-0-07	116-07	115-25	347,893	230,518
Jun	115-03	114-30	-0-06	115-06	114-25	1,151	9,731
Sep	113-27	113-30	-0-10	113-30	113-27	120	14,075

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	118.44			118.44	118.22	3104	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Dec 8	Day's change %	Tue Dec 7	Accrued interest	xd adj. ytd		Low coupon yield Dec 8	Dec 7	Yr. ago	Medium coupon yield Dec 8	Dec 7	Yr. ago	High coupon yield Dec 8	Dec 7	Yr. ago
1 Up to 5 years (25)	130.81	+0.11	130.77	2.60	10.03	5 yrs	5.86	5.71	7.33	5.92	5.95	7.82	6.02	6.07	7.95
2 5-15 years (22)	161.55	+0.37	161.34	2.38	11.86	15 yrs	6.50	6.62	8.22	6.66	6.73	8.85	6.86	6.92	8.94
3 Over 15 years (9)	187.07	+0.76	185.66	2.47	11.21	20 yrs	6.66	6.72	8.46	6.69	6.77	8.81	6.86	6.94	9.01
4 Irredeemables (6)	220.89	+0.63	219.31	1.31	13.71	Irred.†	6.80	6.84	8.87						
5 All stocks (61)	158.78	+0.35	158.39	2.51	11.29										

Index-linked	Wed Dec 8	Day's change %	Tue Dec 7	Accrued interest	xd adj. ytd		Inflation 5% Dec 8	Dec 7	Yr. ago	Inflation 10% Dec 8	Dec 7	Yr. ago
6 Up to 5 years (2)	192.25	+0.15	191.95	0.81	4.28	Up to 5 yrs	1.87	2.02	2.64	1.16	1.20	1.89
7 Over 5 years (11)	180.21	+0.34	180.58	1.34	4.29	Over 5 yrs	3.03	3.05	3.95	2.86	2.88	3.77
8 All stocks (13)	189.49	+0.32	188.89	1.29	4.27							

Debentures and Loans							5 year yield Dec 8	Dec 7	Yr. ago	15 year yield Dec 8	Dec 7	Yr. ago	25 year yield Dec 8	Dec 7	Yr. ago
9 Debs & Loans (65)	143.41	+0.50	148.88	2.03	10.75		7.28	7.26	8.87	7.69	7.74	9.92	7.83	7.86	10.11

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Dec 8	Dec 7	Dec 6	Dec 3	Dec 2	Yr ago	High*	Low*
Govt. Secs. (UK)	105.94	105.55	105.55	105.21	105.14	93.74	105.94	93.28
Fixed Interest	128.78	128.65	128.49	128.46	128.67	108.93	128.78	108.57

* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 128.78 (8/12/93), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Dec 7	Dec 6	Dec 3	Dec 2	Dec 1
Gilt Edged bargains	107.6	104.0	95.1	100.7	138.5
5-day average	110.4	110.0	110.1	108.5	103.5

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 8

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FLOATING RATE NOTES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONVERTIBLE BONDS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Red	Price £	+ or -	1993 High	Low
"Shorts" (Lives up to Five Years)						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five to Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Over Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Undated						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-Linked						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1993: 139.3 and for October 1993: 141.8.

Other Fixed Interest

Notes	Yield Int	Red	Price £	+ or -	1993 High	Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. £ Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

COMPANY NEWS: UK AND IRELAND

Food side boost for Greenalls

By Peggy Hollinger

Hordes of hungry drinkers helped Greenalls, the pubs and hotels company, to increase annual pre-tax profits by 19 per cent before exceptionals to £68.3m.

Sales were 13 per cent ahead at £596m for the year to September 24. Pre-tax profits, after exceptional charges of £15m in 1992, rose by 61 per cent.

Mr Andrew Thomas, chairman, said the 25 per cent increase in food sales to pub customers had helped the group to return "a solid performance in what has not been an easy market".

Beer consumption was still under pressure, he said, with sales 3.3 per cent lower than last year.

Devenish, the 550-strong pubs chain acquired for £214m in July, contributed £18.5m in sales and £4.8m in operating profit. Mr Thomas said he was confident that the integration benefits highlighted at the time of the acquisition would be more than achieved.

All divisions, with the exception of the fruit machines and drinks business, improved during the year. Drinks and leisure had been hit by a "very difficult first half for soft drinks," Mr Thomas said. However, trading had stabilised in the second half.

The pubs division, excluding Devenish, showed a 6 per cent increase in operating profit to £50.2m on sales just 2.3 per cent higher at £190.2m.

The branded pub restaurant and lodge business increased by 19 per cent at the operating level to £10m.

Greenalls' hotels division benefited from improved occupancy rates of 67 per cent, against 60 per cent last year, and a return to profit in the US. Occupancy had been improved at the expense of average room prices, however, which fell from £48 to £43.

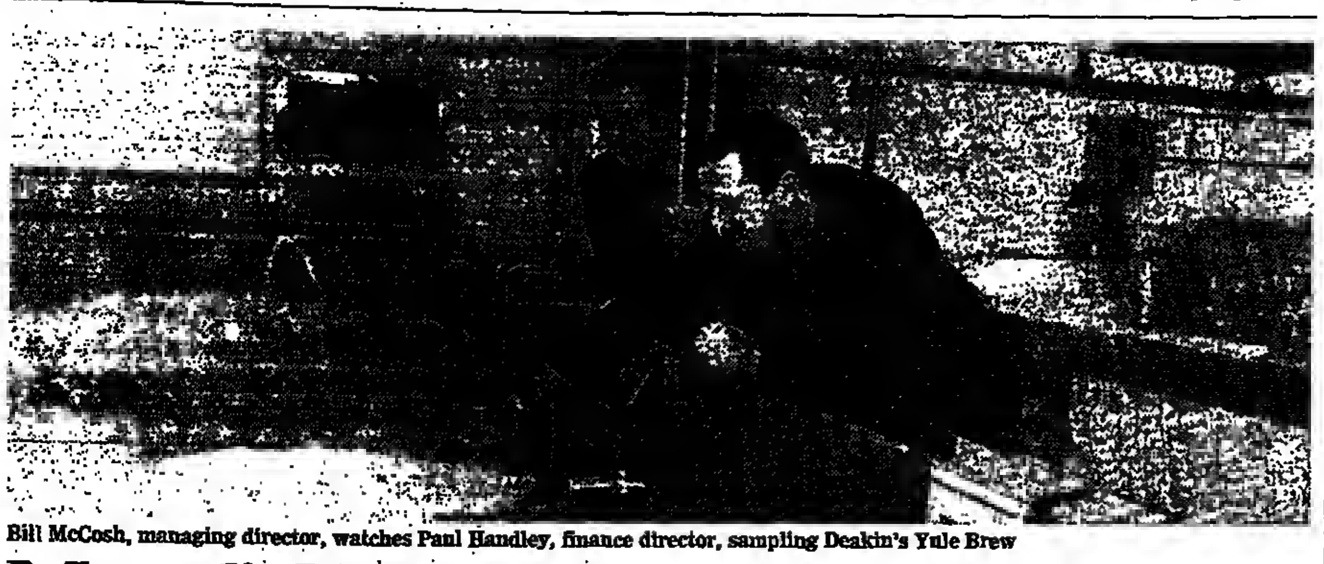
The off-licence division was held back by redundancy charges and stiffer competition from supermarket chains. Off-licences showed a marginal 0.6 per cent improvement in operating profits to £4.5m.

The group took a £77m write-down against its revaluation reserve to cover its hotels and pubs. Mr Thomas said that in the light of recent controversy surrounding hotel valuations, the company had decided to examine the portfolio "fairly carefully".

The final dividend is increased to 7.28p for a total 5 per cent higher at 12.36p. Earnings were 59 per cent higher at 28.55p, although just 4 per cent higher to 28.46p before exceptionals.

● COMMENT

Investors who felt Greenalls had paid what was politely called "a full price" for Devenish will be pleased at the better than expected progress so far. The group has also shown unexpected resilience in non-pubs businesses. Nevertheless, even Greenalls is making cautionary noises about the immediate outlook for beer consumption and it is uncertain just how much more can be taken out of the already lean Devenish. The hotels business is also likely to be a late cycle developer. Forecasts are for about £84m, with a prospective p/e of 14 times. Although the shares are sitting at a small discount to the market, it might still be early days.



Bill McCosh, managing director, watches Paul Handley, finance director, sampling Deakin's Yule Brew

Mansfield Brewery advances 12%

Mansfield Brewery yesterday fought off the effects of a wet summer and recession to report a 12 per cent increase in interim pre-tax profits from £6.65m to £7.47m.

Sir David White, chairman, said the group had benefited from tight cost controls and a widening distribution base for its quality brands.

Sales for the six months to September 25 fell from £60.9m to £60m, with the sharpest fall in volumes of lower margin packaged beers. These declined by 10.7 per cent.

While the regional draught beer market was estimated to have fallen by 5.4 per cent in the first half, Mansfield saw comparable sales decline by just 1.8 per cent, Sir David said.

There was strong growth in the sales of its own brands, such as Riding Bitter which increased volumes by 7 per cent, and Old Bailey Strong Bitter, up 22 per cent. Mansfield Bitter fell by 2.9 per cent.

Operating profits, which rose from £9.7m to £9.9m, had been held back by discounting. This had been necessary to maintain sales to the free trade, which increased by 2.3 per cent, Sir David said.

Mansfield spent £6.2m to purchase four new outlets and four sites. This had been financed out of cash flow. In spite of this expenditure, Mansfield still managed to reduce its net debt of £63.2m to £57.9m, for gearing of 39 per cent.

The interim dividend is increased 14 per cent to 1.25p (1p). Earnings were 12 per cent higher at 8.04p against 7.2p.

Anglo Irish Bank seeks I£57.8m to boost base

By Tim Coone in Dublin

The Irish stock market was taken by surprise yesterday with a I£57.8m (£55m) cash call from Anglo Irish Bank Corporation, the Dublin-based banking group.

The rights issue of 121.7m shares on a 1-for-1 basis at 50p has been underwritten by AIB Capital Markets and Paribas Capital Markets. The shares closed down 6p at 56p.

The company intends to maintain the present level of dividend on the enlarged share capital "in the absence of unforeseen circumstances".

Mr Sean Fitzpatrick, chief executive, said the reason for the issue was "strategic rather than transactional, to move the bank up to a different league".

He added: "No acquisitions are intended or targeted at this particular moment."

The increased market capitalisation would put it in the top 15 stocks traded on the Irish stock exchange, he said, "which will be good for liquidity". As institutions focused more on the larger, more liquid stocks "there is a danger if we are not up there that our shares could practically stop trading in a few years' time".

The money raised will be used as leverage to raise a similar amount in second-tier capital over the next two years. Two thirds will be applied to new lending in the Irish market, the remainder in the UK.

Mr Fitzpatrick said that the bank had no plans to diversify either geographically, or out of the niche middle-market and professional sectors, but would build market share through organic growth and the purchase of loan books.

Trading warning clips 4p from Avon Rubber shares

By Peggy Hollinger

Shares in Avon Rubber slipped back in a buoyant market yesterday as the group warned of a toughening trading environment in spite of an 18 per cent increase in annual pre-tax profits.

The shares closed 4p down at 484p.

Pre-tax profits for the 12 months to October 2 rose from £9.4m to £11m. Sales were 14 per cent higher at £265.7m.

Mr Tony Mitchard, chief executive, said that in spite of an "excellent performance" from the main tyres division, recession in continental Europe was likely to affect trading in the current year.

"We are going to be hard pushed to make another gain," he said. Vehicle output on the Continent was estimated to have fallen by about 20 per cent.

The tyre division increased operating profits by 34 per cent to £6.4m on sales just 5 per cent higher at £82.7m. The current year had begun somewhat "slower than we had hoped", said Mr Mitchard.

The downturn in the European vehicle industry had hit the components division which nevertheless managed to increase operating profits by 13 per cent to £3.9m. Sales were 26 per cent higher at £99.8m.

The technical products business, which includes Avon's defence related products, had "fired on all cylinders", said Mr Mitchard, resulting in a 9 per cent increase in profits to £5m. Sales were 17 per cent higher at £70.3m.

Cadillac, based in the US, had been held back by a squeeze on prices from General Motors, one of its main customers. The group had lost about $2m (£1.3m) in business, as a result. However, sales were 10 per cent higher in dollar terms, said Mr Mitchard, due to greater demand from US vehicle manufacturers.

The inflatables business, which returned a loss of £403,000 against a profit of £25,000 last time, continued to be difficult. It was uncertain whether this would remain a core business for Avon, he said.

The final dividend was maintained at 11.5p for a total of 16.5p (16.5p). The 5 per cent rise in earnings to 30p was held back by the £22m rights issue in May.

Strong NFC looks confident

By Andrew Bolger

NFC, the transport group which yesterday launched a £263m rights issue, said that it was too early to make a forecast of the outcome for 1994, but said it viewed the future with confidence.

Pre-tax profits increased by 17 per cent to £104.9m in the year to October 2 on turnover ahead 10 per cent to £1.9bn. NFC said growth in its core businesses of Exel Logistics, BRS, Allied, Pickfords and Merchants was more impressive, with turnover up 16 per cent and operating profits ahead 35 per cent.

Allied, Pickfords and Merchants were more affected by economic conditions and weak housing markets than the other two businesses, but made steady progress with operating profit up 24 per cent at £28.8m.

Operations in the US and mainland Europe benefited from the devaluation of sterling and the effect of acquisitions in previous years. Devaluation boosted turnover by £116.3m and operating profit by £5.8m. The net pension credit increased by £5.4m to £19.9m and redundancy costs were reduced from £11.4m to £9.9m.

Exceptional items included £50m profit from the sale of the waste management activities; an adjustment to the profit on the disposal in the previous year of Pickfords Travel of £1.5m, and a profit of £3.3m on the disposal of properties.

These were offset by a provision of £45m for the reorganisation of continuing operations.

Lynx, the parcels operation, incurred an operating loss of £10.1m following problems with the start-up of a new hub at Nuneaton. The group said a new management team had managed to reduce the rate of loss, but the company was not yet profitable.

Mr Peter Sherlock, NFC's chief executive, said the group would continue to pursue appropriate corrective action and to examine all options to address the situation – including disposal.

Earnings per share under FRS 3 rose 33 per cent to 15.9p (11.9p).

Excluding exceptionals, earnings rose by 22 per cent to 13.1p (10.7p). A final dividend of 2.6p gives a total for the year of 7p (6.55p), a rise of 7 per cent.

Wehmiller shares fall on profits warning

Shares of Barry Wehmiller International, the packaging equipment manufacturer, fell 9p to 150p yesterday following a warning from the company that first half profits were likely to be lower than last time's reported £3.2m.

In October Mr Michael Windsor, chairman, referred to the slow and unpredictable nature of capital investment in the current world economic climate.

At yesterday's annual meeting he said that situation had not changed and competition had "remained intense" in the first four months of the current financial year

Fife chairman accuses dissident shareholders

By Tim Burt

The hostile struggle for control of Fife Indmar was stepped up yesterday when Mr Gavin Hepburn, chairman of the Scottish engineering and distribution company, accused rebel shareholders of publishing misleading information.

Mr Hepburn, who is fighting moves to unseat him, said a dissident circular sent to shareholders exaggerated the group's pre-tax losses and gearing, and criticised boardroom pay rises "mischievously".

Rejecting the circular, he said claims that Charles Carpenter, a Fife subsidiary, had incurred accumulated losses of £1.2m in the two years to December 31 1992, were inflated by £905,000.

Gearing in 1991, meanwhile, was 83 per cent and not 93 per cent as alleged, he added.

He also told shareholders that criticism of directors' payments – which rose from £37,000 in 1988 to £255,000 last year – was unjustified because they were linked to group performance.

The rebel allegations were made by Mr Charles McDonald, a current director, and Mr Guido Crolla, a Scottish businessman, who together control 10.4 per cent of the company. They aim to oust Mr Hepburn and fellow director Mr Michael Munro at an extraordinary meeting next week and become chairman and managing director respectively.

Hodgson plans Hoskins growth

Mr Howard Hodgson, the ebullient former funeral director who returned to the stock market in the summer after a period of self-imposed exile, yesterday announced the first moves in the intended expansion of his adopted vehicle, writes Graham Deller.

Hoskins Brewery, the tiny Leicester-based real-ale brewer of which Mr Hodgson is now chief executive, confirmed yesterday that discussions were in progress over the possible acquisition of Ronson, the lighters company.

At the same time, shares of LGW, the USM marketing and luxury goods group, jumped 17p to 159p on the disclosure it was in talks with Hoskins.

Hoskins shares were suspended at 78p.

IMC exercises its ICD option

IMC Industries is exercising its option to subscribe for 6.95m shares at 7p in International Communication & Data, the marketing services company. The move has triggered a mandatory 9½p a share offer for ICD.

IMC, the USM-quoted soft drinks and leisure group, will have a 10.8 per cent stake following the exercise. The company and its supporters hold a total of 28.27 per cent as well as warrants to subscribe for a further 1.38m shares.

The offer is deliberately pitched low and IMC said it did not wish to gain control of ICD.

Overseas growth behind rise to £2.7m at Courts

Strong growth overseas helped Courts, the retail furnisher, report pre-tax profits ahead 43 per cent at £2.72m for the half year to September 26, against £1.9m, writes Nigel Clark.

The result was struck after a charge to deferred profit of £769,000, compared with a credit of £1.4m. The turnround was the result of increased overseas activity and represented the payments to date on hire purchase sales.

Turnover rose 26 per cent to £105.8m with a 9 per cent rise in the UK and 46 per cent overseas. Favourable exchange rates accounted for 24 per cent of the overseas growth.

Earnings advanced to 3.94p (1.23p) and the interim dividend is 2p (1.83p).

Trading in the UK showed a slight improvement although the south of England, where most of the group's stores are situated, was still suffering from recession.

Overseas, the principle increases in turnover were seen in Singapore, Mauritius, Malaysia, Barbados and Jamaica. In November a share placing and sale by its Singapore offshoot raised £21.5m and cut Courts' holding to 58.5 per cent.

Airtours acquires Tradewinds

Airtours, the UK's second largest holiday tour operator after Thomson, has acquired one of the UK's leading long-haul brand names.

Tradewinds has been acquired from International Travel Connections, a privately-owned company based in Chester, for £250,000 cash.

Mr David Crossland, chairman of Airtours, said the acquisition provided a new opportunity to offer exotic holidays to long-haul destinations.

The new product would appeal to a segment of the market not presently covered by Airtours.

S&N sells ophthalmic solutions side

Smith & Nephew, the worldwide healthcare group, is to sell its UK ophthalmic solutions business to Laboratoire Chauvin for £16m cash. The proceeds will go to reduce borrowings.

LC is engaged in the manufacture of opthalmic products in France.

The sales and profit of S&N's solutions business were £7m and £1.5m respectively in 1992 and net assets were £6m.

Alchem helps Utd Drug achieve 11% increase

By Tim Coone in Dublin

United Drug, the Irish pharmaceutical distributor, reported an 11 per cent increase in pre-tax profits to I£3.44m (£3.3m) on turnover up 79 per cent to I£136m for the year ending September 30.

The result included a first-time contribution from Alchem, Northern Ireland's largest pharmaceutical distributor, which was bought for I£5.16m a year ago in a 13-for-8 share swap offer, which brokers anticipated would result in a combined turnover of about I£110m and a pre-tax profit of I£4m for a full year.

Mr Jerry Liston, chief executive, said turmoil in the Irish financial markets in the last quarter of 1992 "contributed to a general lack of consumer confidence . . . and impacted on the slack trading conditions experienced in our consumer products division."

He said that government restraints on healthcare spending, reduction in pharmaceutical prices which became effective in August 1993, and a "highly competitive marketplace" also affected the result. Net interest charges were I£888,000, but following a rights issue last June, the group "returned to a positive net cash position at year-end."

Diluted earnings were 16.54p (17.2p) and a final dividend of 4.8p makes a total of 7p (6.7p).

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Airsprung Furn ....int	1.7	Jan 28	1.575*	-	4.5*
Asprey ....int	1.25	Jan 28	1.1	-	5.1
Avon Rubber ....fin	11.5†	Feb 25	11.5	16.5	16.5
Blick ....fin	8.9†	Apr 5	8.2	10.2	9.2
BTP ....int	3.45†	Feb 14	3.25	-	9.3
Caffyns ....int	5	Jan 14	5	-	11.5
Countryside Prop ....fin	2.7†	Apr 8	2.7	4.11	4.11
Courts ....int	2	Apr 8	1.83	-	5.5
East Midlands ....int	6.8	Mar 23	5.72	-	19.5
Feedback § ....int	0.5	Feb 4	-	-	1.5
Genesis Chile ....fin	60☆	Jan 20	56	60	56
Greenalls ....fin	7.28†	Feb 21	6.93	12.36	11.77
In Shops ....int	0.7†	Jan 14	0.66	-	2.75
Jos ....int	2.875	Jan 21	-	-	11.65
McCarthy & Stone ....fin	nil	-	nil	-	0.5
Mansfield Brew ....int	1.25	Jan 10	1.1	-	3.85
NFC ....fin	2.6	Apr 6	2.3	7	6.55
Prospect Inds ....fin	0.525	Apr 6	0.5	0.8	0.75
River Plate Gen ....fin	5.9	Jan 31	5.9	8.9	8.9
Rolfe & Nolan ....int	2.805	Jan 21	2.55	-	7.2
Sage ....fin	6.6†	Feb 25	6	9.92	9.02
Sterling Pub § ....int	0.7	May 9	0.6	-	3
TGI ....int	0.8	Jan 18	0.5	-	1.5
United Drug ....fin	4.8‡†	-	4.65	7	8.7

Dividends shown pence per share net except where otherwise stated. †On increased capital. *Equivalent after allowing for scrip issue. §USM stock. ☆ US cents. ‡Irish currency.

Changes to FT-SE Actuaries Share Indices

The following notice was issued yesterday by the FT-SE Actuaries UK Indices Committee.

The Committee today approved the quarterly changes to the UK Series of the FT-SE Actuaries Share Indices, to be made on Monday, December 20 1993.

FT-SE 100

For inclusion: Eastern Electricity, Scottish Hydro-Electric.

For axclusion: Northern Foods, NFC.

FT-SE Mid 250 and FT-SE Actuaries 350

For inclusion: Gartmore, London Insurance Market, DFS Furniture, Heywood Williams, EFM Dragon, Frogmore Estates, Murray Smaller Markets.

For exclusion: Tiphook, Micro Focus, Babcock International, Betterware, Shanks & McEwan, Taunton Cider, Phote-Me International.

Companies promoted from the FT-SE Mid 250 to the FT-SE 100 will be replaced in the FT-SE Mid 250 by those companies excluded from the FT-SE 100.

Companies excluded from the FT-SE Mid 250/FT-SE Actuaries 350 will be included in the FT-SE SmallCap.

The Committee also approved the inclusion of the following new issues in the FT-SE SmallCap and the All-Share with effect from December 20 1993: Carpetright, Crockfords, Field Group, Phonelink, RJB Mining.

Tha next quarterly review will be held on March 9 1994.

Tha Committee has now completed its consideration of the future treatment of enhanced scrip dividends (ESDs).

As from December 31 1993, the ESD will be split into two components; the value of the gross cash dividend will be treated as income and an adjustment will be made to the capital index to reflect tha difference between the gross cash dividend and the ESD.

This will mean that the capital index will fall on the ex dividend date to reflect the value of only the gross cash dividend.

Advance assisted by three month contribution from MTM

BTP improves 29% to £13m

By Paul Taylor

BTP, the specialist chemical company which bought most of the assets of the ailing MTM group for £106.7m in June, yesterday reported a 29 per cent increase in interim profits reflecting the acquisition and organic growth.

Pre-tax profits increased to £13m in the six months to September 30 from £10.1m in the year-ago period. Turnover jumped 32 per cent to £130.7m (£99m).

Earnings per share improved 12 per cent to 7.04p (6.26p) and the interim dividend is lifted to 3.45p (3.25p).

BTP's share price closed 6p higher at 292p.

The MTM operations, part of the group for three months in the first half, contributed £19.8m to turnover and £2.15m to operating profits which grew to £13.8m (£10.3m). Excluding the seven MTM businesses, all of which were profitable in the first half, operating profits rose by 17.4 per cent.

Before the acquisition, two of MTM's businesses, one in the UK and one in the US, had been losing about £2.5m a year. Mr Frank Buckley, chairman, said the profit turnround had been achieved by discontinuing lossmaking products and raising prices.

Following the acquisition BTP is now reporting financial details on four sectors.

The largest of these, adhesives and textile coatings, reported sharply lower operating profits of £2.79m (£3.8m), reflecting recession in continental Europe, on turnover which expanded to £42.1m (£39.5m).

The performance chemicals division reported profits of £3.29m (£2.36m) on turnover of £24.3m (£15.6m). Excluding the MTM operations profits improved by 11 per cent. The biocides and fine chemicals division also showed strong growth with profits up at £4.43m (£1.99m) on turnover of £33.3m (£17.7m.).

The non-chemicals industrial division reported operating profits of £3.41m (£1.89m) on increased turnover of £31m (£26.2m) helped by particularly strong growth in its safety harness business reflecting tighter safety legislation in the US.

Net interest payments totalled £906,000 in the first half compared with receipts of £75,000 in the year-ago period. The group ended September with net borrowings of £33.8m against net borrowings of £2m at the end of March.

Commenting on prospects Mr Buckley said, "While we retain a cautious outlook in the uncertain economic climate which prevails in a number of our markets, we continue to view the future with confidence."

Allders meets flotation forecast

By Maggie Urry

Allders, the department store and tax and duty-free retailer, has fulfilled the forecasts made in its flotation prospectus.

The group, which went public last month, made a pro-forma pre-tax profit of £13.2m in the year to September 30, compared to its forecast of £13.2m.

The shares closed yesterday at 191p, down 1p on the day but ahead of the 170p flotation price.

Lord Prior, chairman, said consumer confidence was still fragile. However, he was confident the current year would see the benefit of new stores opened in 1992 and 1993, and new tax and duty free outlets. He said "with our financial position now established, we are well placed to secure future growth".

Allders learnt last Friday that the Canadian government was cancelling the redevelopment and privatisation of Toronto airport, which would have given Allders the right to operate shops in terminals 1 and 2. Allders is hoping for compensation for the preparation work it has done.

Actual pre-tax profit was £6.36m (loss £3.44m), after an interest charge of £8.85m (£10.6m), which would have been £7m lower had the group had the £75m cash raised through the flotation at the start of the year. The group had been heavily borrowed because of its management buy-out in 1989.

Group sales rose 16.4 per cent to £656.5m and operating profits were £23.1m (£15.2m), including associates of £3.26m (£2.24m) and before exceptional costs of £7.99m (£8.08m) which related to rent on an unused property.

Pro-forma fully diluted earnings per share were 13.9p, against an estimate of 13.7p. The group said at the time of the float that it would not pay a dividend in respect of 1992-93, but if it had been quoted throughout the year would have paid a total of 6.1p.

Department store sales were up 10.6 per cent to £386.6m, with the increase due to new stores. Operating profits in this division rose 21 per cent to £12m, but this included a £1.2m benefit from a 53rd trading week. The duty free shopping division increased sales 21 per cent to £398.9m. Operating profits nearly doubled to £13.1m (£6.7m).

Countryside bounces back into the black

By Andrew Taylor, Construction Correspondent

Countryside Properties, one of south-east England's biggest housebuilders, bounced back into the black with pre-tax profits of £4.74m for the 12 months to September 30.

During the previous year the group incurred an £11.7m pre-tax loss, after making exceptional provisions of £14.8m to compensate for falling property values.

Mr Alan Cherry, chairman, said the improvement in house buyers' confidence had been sustained following the £16.8m rights issue in May.

The profits increase, however, was lower than analysts had expected and the shares slipped by 8p yesterday to 141p. This compared with the rights issue price of 108p.

As expected the final dividend is maintained at 2.7p, making an unchanged total of 4.11p, covered by earnings per share of 5.9p (losses of 18.6p).

The number of homes built by Countryside in the period jumped from 751 to 1,235.

Almost 70 per cent of production was sold to housing associations or similar social housing organisations.

Government finance for grants to housing associations is to be reduced in 1994-95. Associations would seek to maintain building programmes by pursuing better value for money from experienced builders, Mr Cherry said.

Housing had made a £6m profit, compared with a £4.7m loss. The number of private sector sales had risen from 282 to 393. Sales by value had risen by 49 per cent.

Lower interest rates had made the initial cost of buying a home the cheapest "for almost 20 years."

The decision to phase out mortgage tax relief, also announced in the budget, had been anticipated and was unlikely to have an adverse effect on the gradual recovery in the housing market, said Mr Cherry.

The company was launching a range of low-cost houses to meet growing demand from first time buyers.

The commercial property division also returned to the black, with profits of £55,000 (£861,000 deficit). Property investment reduced its annual loss from £6.2m to £1.3m.

● COMMENT

Feelings among analysts were very mixed following Countryside's results. Disappointment that profits were not higher was seized on by critics as further confirmation that the company never quite delivers all that it promises. There was also concern at the extent of Countryside's housing association sales in an increasingly competitive market. On the other hand the group's large landbank will stand it in good stead as the private housing market recovers. Profits from private house sales could easily double this year. The sale of the group's property investment portfolio would also dramatically improve the balance sheet, where gearing is currently 100 per cent. Profits of £9.5m would put the group on a prospective p/e of 13, which still looks cheap given the quality of the landbank, but there are doubters.

McCarthy & Stone loss nearly halved at £11.2m

By Andrew Taylor, Construction Correspondent

McCarthy & Stone, Britain's biggest builder of retirement homes, yesterday reported a reduction in pre-tax losses from £20.2m to £11.2m during the 12 months to the end of August.

The company added that for the first time in three years it had earned an operating profit before interest, of £5.6m.

The reduced loss was assisted by a fall in exceptional provisions from £10.3m to £7.8m to cover the cost of running down Quadrant, the group's French business, and reorganising the UK business.

The company has substantially reduced the amount of working capital tied up in stocks.

It has also gained an improvement in margins as prices have risen and the need for sales incentives reduced as conditions in the housing market have improved.

"Prices currently are running about 11 per cent higher than during the corresponding period last year when the market was at a low ebb following sterling's withdrawal from the ERM," said Mr John McCarthy, chairman.

Turnover slipped from £73.7m to £71.1m. The group would be seeking shareholders' approval to set off a cumulative deficit of £6m against its share premium account. That would bring forward the date at which it could resume ordinary and preference share dividends when profitability improved, said Mr McCarthy.

The sale of the company's Peverel management company since the year end for £30.7m had enabled it to reduce its borrowings to about £20m, equivalent to about 30 per cent of shareholders funds.

Mr McCarthy said that the company was now well placed to take advantage of a market which would grow substantially as the number of elderly people reaching retirement age increased.

Power Corp cuts loss to I£4.47m

By Tim Coone in Dublin

Lower exceptional costs enabled Power Corporation, *the Irish property group, to cut its interim pre-tax loss from* I£75.2m to I£4.47m (£4.24m).

For the six months to September 30 there was a I£1.4m exceptional charge for debt restructuring, against I£72.7m costs relating to property revaluations and putting the Trocadero Group into administrative receivership.

Total income, including rents from all properties, amounted to I£7.13m, against I£5.87m.

Three months ago the company announced a I£102.8m loss for the 1992-93 financial year, having taken a I£97m exceptional charge on its Trocadero Centre and Island Site developments in London and property write-downs.

Mr Robin Power, chairman, said that in the period under review operating expenses had been reduced substantially.

No disposals were made in the six months' period from the group's I£85m portfolio of properties held for resale. In the present half sales totalling I£8.2m have been completed "at satisfactory prices".

The sale of its main asset, the Ambassador Hotel in Los Angeles, is now more likely to proceed as planned following the abandoning of plans by the Los Angeles Unified School District to purchase compulsorily the site.

The refinancing of the San Francisco Centre has taken longer than planned, the company said, although Mr Power said "substantial progress" has been made.

Losses per share came out at *3.84p (64.68p).*

Colin Beere

Naim Attallah: discounts for valued, high-spending customers

All-round growth lifts Asprey £1m

By Maggie Urry

Asprey, the up-market jewellery retailer which also owns Garrard and Mappin & Webb, increased pre-tax profits by £1m to £12.2m in the half year to September 30.

The rise was achieved, the company said, in spite of persistent difficult trading conditions.

In July, Sears, the retail group, sold its 25 per cent stake in the company, and Asprey shares moved from the USM to the Official List. Yesterday the shares rose by 2p to 315p.

Sales rose 45 per cent to £87.4m (£60.2m) but margins were under pressure. Mr Naim Attallah, chief executive, said that now "the richer the person is the more he wants value for money." Valued, high-spending customers were asking for and getting discounts.

Sales at Asprey rose by more than 30 per cent, at Garrard by 18 per cent and Mappin & Webb by 24 per cent.

The group benefited from a full six months' contribution from Watches of Switzerland, acquired in June 1992, and three months from Les Ambassadeurs, the Swiss chain, bought on July 1. Mr Attallah said losses at Asprey's New York shop were lower.

Since July, Asprey had acquired Ronald A Lee (Fine Arts), a specialist antique clock dealer, for £300,000 and Tomasz Starwecki, a dress designer, for £120,000.

Following the Les Ambassadeurs deal, net interest receivable fell from about £700,000 to £300,000.

Earnings per share rose by 15 per cent to 8.04p (6.97p), and the interim dividend is lifted by 14 per cent from 1.1p to 1.25p.

Framlington Russian fund

By Yuri Bender

Framlington, the London-based investment manager, is launching the first ever quoted Russian investment fund. Lord Howe, the former foreign secretary, will be its chairman.

Its portfolio will consist mainly of stakes in small to medium-sized joint ventures between Russian and western companies. It has already targeted six such ventures in food processing, high technology such as space and electronics, and consumer goods such as textiles.

Other investments are likely in companies which service the Russian oil and mining industries. The fund will buy stakes averaging 20 per cent, worth typically between $500,000 and $4m.

Up to $75m (£50.3m) of the fund's shares will be placed with institutions in the UK, continental Europe and North America. Subscriptions to the closed-end, Luxembourg-regulated fund will close in mid-December prior to share listing in Luxembourg and London.

The minimum stake is $100,000. The European Bank for Reconstruction and Development is taking a $16m slice, and the International Finance Corp is expected to take $8m.

Mr Connell Gallagher, Framlington's Russian investment analyst, forecasts that the value of the fund's investments will grow by more than 30 per cent a year over 10 years.

As well as political and economic risks, the prospectus warns investors that the fund's investments may be illiquid due to the lack of an established Russian securities market. This may make it hard for the fund to realise its full net asset value.

Mr Boris Jordan, Credit Suisse First Boston's Moscow-based director, says the main risk of investing in Russia is the absence of a proper legal system to protect shareholders' rights.

However, CSFB is positive about the fund's prospects: "Russia is one of the world's largest emerging economies," says Mr Jordan. "The sectors targeted by the fund will be quite heavily invested over the next year, and most of the interesting opportunities will quickly disappear." Brokers to the fund are Smith New Court, Bank Austria, and CCF Elysées Bourse, a division of Crédit Commercial de France, the French bank which is Framlington's majority shareholder.

Friends Provident Ethical launched

By Philip Coggan, Personal Finance Editor

Friends Provident has published the prospectus of its split *capital Ethical Investment* Trust.

The zero dividend shares will offer capital growth at a rate of 8.1 per cent. The ordinary income shares, which will receive all the revenue of the trust, will have an expected gross initial yield of 8.1 per cent.

Up to 20m of each class of shares is available; investors can also buy units, consisting of one zero and one ordinary income share.

Investors can buy shares or units in two instalments; the first payable on application and the second by February 21 1994. The first instalment is 60p on the zeros, 60p on the ordinary income shares and 120p on the units; the second instalment is 43p on the zeros, 40p on the ordinary income shares and 83p on the units.

The trust will invest in shares in companies which show qualities such as responsibility to the community and employment practices.

Hopes launched of uplift in tanker shipping

Charles Batchelor on events which point to the end of a 20-year bear market in new shipbuilding

Attracting new money into tanker shipping has been a difficult task in recent years. The banks had their fingers badly burned, while equity finance has been hard to come by.

But there are signs of a change. The past six months have seen a rash of equity issues which some analysts believe may herald the first significant uplift in the tanker and bulk shipping market for two decades.

More than $500m (£335m) of new equity has been raised by means of rights issues and share placings to finance spending on new and second-hand vessels.

"We are seeing the end of a 20-year bear market in new shipbuilding," predicts Mr Mark McVicar, shipping analyst at NatWest Securities.

At the same time, family-owned shipping companies are taking the opportunity to restructure their businesses to make them more transparent, and hence more attractive to the institutional investor.

Recent equity issues have included:

● Bona Shipholding. Established as a private company last year to own and operate the tanker and product fleet of Leif Hoegh, a Norwegian shipping group, Bona is raising $120m and seeking an Oslo listing. Its shares will also be traded in London and the US after the offer closes on December 18. The effect will be to reduce Leif Hoegh's stake from 76 to about 42 per cent.

● London & Overseas Freighters. Lofs, a London-listed company controlled by the Kulukundis family, has placed $75m of new shares and obtained a listing on the US Nasdaq market. This reduces the Kulukundis holding from 85 to 24 per cent and gives the company greater exposure to US investors.

● First Olsen Tankers. This company was set up to take over most of the midsize – 100,000 to 150,000 dwt – tanker interests of the Norwegian shipping group Fred Olsen & Co. It completed a $105m share offering last month. The deal left Fred Olsen and associates with an unchanged 45 per cent of the shares, but brought in new institutional shareholders and created a more tax-efficient structure.

● Other recent developments have included the listing in Oslo last June of Smedvig Tankships via a $138m offering, a $53m share issue by Benor Tankers, a Bermuda-registered operator of product carriers and a $61m rights issue by the Swedish ICB Shipping.

The amounts of equity being raised are tiny compared with the billions which will be needed to renew the world tanker fleet over the next few years. Together they would buy just five new supertankers. But they are seen by shipping analysts as a hopeful sign of revival in the tanker sector.

Underlying this flurry of stock market activity is the expectation of a rise in the charter rates for tankers and bulk carriers. Rates for a reasonably modern super-tanker are about $14,000 a day. Some analysts hope for an improvement in rates in the new year. On this will depend whether there are any more equity issues.

Expectations of an upturn in rates are based on forecasts of economic recovery and an upturn in demand for oil. They also hinge on the end of the chronic overcapacity in tankers, which has depressed earnings for the past two decades.

This overcapacity dates from the early 1970s, when new tankers were laid down in the shipyards in record numbers. New tanker construction doubled in 1973 and again in 1974 before peaking at more than 35m dwt in 1975, just when the oil crisis cut off demand for capacity.

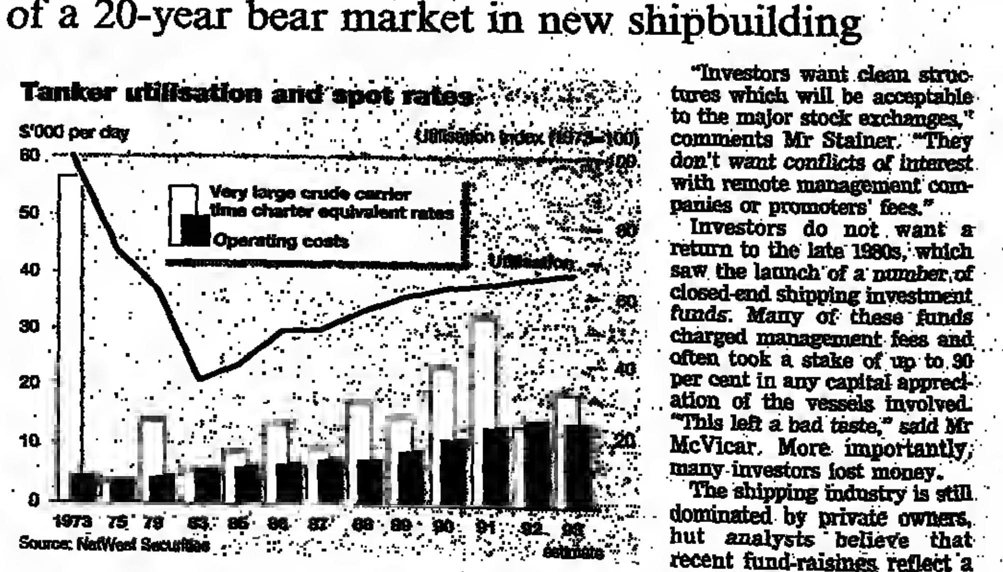
Except for a short upward blip in market rates before the US-led attack on Iraq during the Gulf war, when large amounts of oil were pumped out of the Gulf and stored in tankers, the market has been dogged by excess capacity.

But many of these tankers built in the early 1970s are approaching their fourth five-year survey, which can be a costly event. "After 20 years you have to replace a lot of steel," says Mr Matthew Stainer, shipping analyst at Schroder Securities.

"Charter rates have been so low that a lot of tonnage has not been well maintained. Over the next five years half of the tanker fleet will move past its 20th birthday."

This ageing of the fleet has coincided with the introduction of tough environmental controls by the US government and the International Maritime Organisation. The US regulations will force shipowners to modernise their fleets or face the prospect of being barred from American waters.

The main threat hanging over shipowners is the US Oil Pollution Act of 1990, introduced in the wake of the Exxon Valdez disaster off the coast of Alaska, and other recent oil spills. Some provisions of the act will not work through until well into the next century, but others, such as the requirement for new tankers to have double hulls, have taken immediate effect.



The tough liability imposed on shipowners by the OPA has persuaded some tanker operators to restructure their shipping holdings, reducing their direct stakes. The aim is to ensure that liability for a spill stops with the tanker subsidiary and cannot be enforced on the parent company. "They want to reduce their catastrophe risk," comments Mr Frans Hoyer, transport analyst with SG Warburg Securities.

But the restructuring of the shipowners' holdings also reflects their desire to create corporate structures more acceptable to investors.

"Investors want clean structures which will be acceptable to the major stock exchanges," comments Mr Stainer. "They don't want conflicts of interest with remote management companies or promoters' fees."

Investors do not want a return to the late 1980s, which saw the launch of a number of closed-end shipping investment funds. Many of these funds charged management fees and often took a stake of up to 30 per cent in any capital appreciation of the vessels involved. "This left a bad taste," said Mr McVicar. More importantly, many investors lost money.

The shipping industry is still dominated by private owners, but analysts believe that recent fund-raisings reflect a shift towards putting ships into publicly owned companies. Even some of the famously secretive Greek shipowning families are moving in this direction.

But there are limits to this trend. Making a profit from shipowning can still depend more on a feel for the market – spotting when to buy or sell a vessel or an entire fleet – than on shaving 10 per cent off running costs by better management.

And for all the excitement generated by the analysts' graphs of supply and demand, the sector is still notoriously dependent on the unexpected. A large oil spill or political upset in the Middle East could throw out all the clever calculations.

COMPANY NEWS: UK

Sage growth continues with rise to £9.66m

By Alan Cane

Shares in Sage Group closed up 31p at 475p as the Newcastle-based accounting software and stationery supplier continued an unbroken run of growth in turnover, pre-tax profits and earnings per share since going public in 1989.

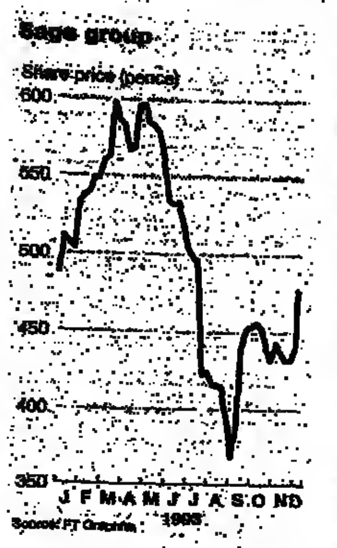
The City was relieved that Sage made pre-tax profits of £9.66m, 9 per cent ahead of last year's £8.85m and only £1.2m under expectations, after a profits warning in July.

Turnover rose 5f per cent to £41.3m (£27.3m), split between the UK (£22.1m), the US (£14.3m) and France (£4.9m).

Earnings per share increased by 5 per cent to 32.5p (30.9p) while a final dividend of 6.6p lifts the total to 9.92p (9.02p).

Despite acquisitions costing £5.8m, year-end cash balances were £4.2m, compared with £7.2m last time.

Mr David Goldman, chairman, said that the group had taken action to deal with problems in several parts of the business in a generally unhelpful year: "Current trading trends indicate that Sage should see continuing growth and an improvement in profitability this year".



Sage specialises in accounting software for medium-sized and smaller businesses. It has recently entered the important but low margin SoHo – small office, home office – sector with a version of its Sterling accounting system.

Mr Goldman noted: "Maintenance income amounted to £7.8m, an increase of 41 per cent over the previous year with one in five of pour registered users opting to buy ongoing support services from the group".

● **COMMENT**

Sage has a hard won reputation for sound, undramatic management but it has had its work cut out to cope with problems in its US acquisitions DacEasy and Remote Control International. It has also had to accelerate the migration of its existing products from the DOS operating system to Windows, Microsoft's graphical interface. It now seems to have solved distribution problems for Daceasy in the US – which had caused a "bloodbath" according to Mr Kevin Howe, Daceasy chief executive – continued the development of RCI's Telemagic telephone marketing system and launched Windows versions of the critical programs. Analysts were mollified by the speed with which Sage tackled these problems and are looking for £12.5m in pre-tax profits next year. The shares still look undervalued compared to the sector and should be set to advance further.

Blick improves 10% to £9.4m

By Paul Taylor

Blick, the communications systems and time products company which acquired Time and Security for £57.6m in October, yesterday reported full year pre-tax profits slightly ahead of forecasts made at the time of its rights issue to partly fund the deal.

Pre-tax profits increased by 9.7 per cent to £9.41m in the year to September 30, compared with profits of £8.58m.

Earnings per ahare increased by 4.1 per cent to 27.06p (26p) and the final dividend is increased to 6.9p (6.2p), making a total for the year of 10.2p (9.2p).

Nevertheless, Blick's shares closed down 5p at 440p.

Turnover increased by a relatively modest 6.4 per cent to £32.8m (£30.9m), including £1.93m attributable to acquisitions.

Public address systems turnover growth was particularly strong, as were exports which grew by 24 per cent.

However, Mr Ian Scott-Gall, managing director, said the overall turnover figure masked strong growth in rental income which increased by 16.5 per cent to £15.8m and more than offset a slight decline in outright sales.

The group is emphasising rentals as its preferred growth route. At the end of September its gross future rentals under contract totalled £87m but the Time Security acquisition is expected to almost double this to £167m.

Operating profit rose by 12.3 per cent to £8.89m (£7.92m) including £57,000 from acquisitions.

The improved operating profits came despite modest but unquantified restructuring costs, mainly related to the group's time division.

Net interest receipts fell from £664,000 to £517,000, mainly reflecting the impact of lower interest rates on the group's cash balances which stood at £6.6m (£7.35m) at the end of September.

As foreshadowed in October, in order to finance the Time and Security acquisition the group used not only its own cash surplus and the proceeds of the £20m rights issue, but also put in place £40m of bank loans and guarantee facilities.

As a result the group is geared for the first time since its flotation in 1986.

Vacant space behind 19% decline at In Shops

By Paul Cheeseright, Midlands Correspondent

In Shops, the retail and office centres operator, saw profits dip 19 per cent to £735,000 pre-tax in its first half to September 30, against £903,000.

During the first half, Millbank, which with its chain of Job Lot stores was acquired last August, contributed £1.64m to total turnover of £14.3m. Turnover of continuing operations was marginally higher at £11m.

The high level of vacant space in In Shops' centres caused profits to drop, but recently there has been some improvement, opening the way to higher profits in the second half.

The Birmingham-based group sold Executive Centres, its lossmaking chain of serviced offices, shortly after the period-end for a nominal £1 to the Fuchs family, which had been involved in the business before its acquisition by In Shops.

The disposal appears in the accounts as a loss of £5.04m which is more than offset by a provision of £5.62m set up in the previous year.

The disposal, combined with Millbank, has repositioned In Shops as a retail specialist. Next month Job Lot will expand from the north into the Midlands and south of England.

Earnings per share on continuing activities were 1.25p, against 1.7p.

The interim dividend, up from 0.66p to 0.7p, is being paid on capital enlarged by the share sale to pay for Millbank.

Airsprung Furniture turns in 8% increase to £2.5m despite 'fierce competition'

Taking a laid-back attitude to marketing

By Roland Adburgham, Wales and West Correspondent

Airsprung Furniture, the UK's second-largest bed manufacturer, lifted pre-tax profits by 8 per cent from £2.32m to £2.5m in the half year to September 30.

Turnover grew by 15 per cent to £33m with operating profit rising to £2.43m (£2.2m).

Earnings per share improved to 6.41p (5.91p) and the interim dividend is increased to 1.7p (1.575p).

Mr John Pierce, chief executive, said: "There has been some of the fiercest competition we have seen for some while, with no help from the economy and everybody slugging away for market share."

Since the start of the recession, and despite the weakness of the housing market, rising sales have resulted in an increase in the company's workforce from 1,200 to 1,550 over the year.

After Silentnight, Airsprung sells the most beds in Britain, with about 15 per cent of the £350m market. Its relative anonymity, compared with Silentnight and smaller companies such as Relyon, is a consequence of its strategy to let the retailer do the marketing.

"We don't believe in branding – it is the retailer who controls what the customer buys," said Mr Michael Coppel, joint chairman. "We divert all marketing and support to the retailer. Brand imaging would cost us £2m a year and someone has to pay for it."

The strategy avoids an expensive advertising contest, which would not increase the overall market. Beds are a 'distress purchase' – nobody buys one until it is essential.

Despite severe competition at the quality end of the market, Airsprung's bedding sales were up by 12 per cent in the half-year. But profits suffered in the upholstery division – which accounts for nearly a third of group sales – because of squeezed margins and bad debts. There was a profits improvement in the smaller pine furniture division.

Airsprung, with its origins dating to the 19th century, is still 42 per cent owned by the family of Mr John Yates, grandson of the founder, but has only had a full listing since 1991.

In management changes this summer, Mr Coppel became joint chairman, with Mr Yates and Mr Pierce succeeding Mr Coppel as chief executive.

Mr Mark Hudson, small companies analyst with Barclays de Zoete Wedd, said: "It is not run as a family fiefdom; it is run as a very professional public company."

The company, based on a 28-acre freehold site in its home town of Trowbridge, Wiltshire, has expanded in recent years by acquisitions of such businesses as Duckers, the pine furniture maker, and Gimson & Slater and Bymacks, the upholsterers.

The subsidiaries are given as much autonomy as possible. Mr Coppel said: "We won't buy a company if it doesn't have good management – which we retain."

"The subsidiary management is like the board management – very conscious of costs, quality and servicing the customer and, if you get all that right, you've got a very successful company."

As part of the control of costs, staff are trained to have at least two skills, so that if work is slack in one area they can transfer to another. Stocks of finished goods are not held, but made to order, with MFI supplied with its own-label beds in nine days. This year, £1m has been spent on a distribution centre at Trowbridge.

Given that there can be no rapid increase in the bedding market, Airsprung seeks to grow by improving market share and further acquisitions.

It wants to be less dependent upon bedding and expand its upholstery and pine divisions, although upholstery is vulnerable to the low-cost of entry into the market.

"It is a constant battle which has a depressing effect on prices," Mr Pierce said.

The manufacture and retailing of beds and furniture is, however, undergoing a similar restructuring to the food industry, favouring larger companies with national distribution.

"The industry dynamic is towards the players who can deal in volume and can make the capital investment that is required to be cost efficient," Mr Hudson said.

"The small companies will increasingly become niche players supplying niche retailers."

NEWS DIGEST

Prospect falls slightly to £4.02m

Prospect Industries, which provides specialist engineering services to the power generating and process industries, yesterday reported pre-tax profits down from £4.44m to £4.02m for the year to end-September.

The outcome was struck after a £263,000 charge relating to an abortive acquisition and a £713,000 loss arising from disposals and was struck on increased turnover of £58.8m (£52.5m) – including £594,000 (£6.69m) from discontinued operations. Comparatives have been restated to comply with FRS 3.

At the operating level, profits from continuing operations showed an advance from £4.78m to £5.42m.

The interest charge fell from £588,000 to £368,000 and tax took £1.2m (£1.26m). The proposed final dividend of 0.525p (0.5p) makes a total of 0.8p (0.75p) and comes from fully diluted earnings of 1.12p (1.35p) per share.

Analysts expect pre-tax profits of between £5.5m and £6m, putting the shares on a prospective multiple of about 10.

MEPC's offer for APT worth £112m

MEPC, the property group, said that the pre-conditions to its making an offer for the assets of American Property Trust and its wholly owned companies, have been satisfied or waived.

The final adjusted consideration payable to unitholders is £112m, which will be satisfied by the issue of up to 22.09m new MEPC shares.

Up to 20 per cent of the consideration is available in cash from MEPC's own resources.

MEPC has received irrevocable undertakings in favour of its offer from holders of more than 75 per cent of the existing APT voting units. The offer will remain open until January 4 or such later date as MEPC may decide.

APT has convened an extraordinary meeting for December 23.

Shaftesbury consolidates

Shaftesbury, the property group, consolidated its return to profit in the 12 months to September 30 with £1.01m before tax, against a restated loss of £5.29m.

The latest result followed a £344,000 pre-tax profit in the first half, against a £1.27m loss.

The year saw completion of the disposal of the development portfolio and the conclusion of trading activities of associated companies.

The pre-tax loss for the year to end-September 1992 was restated to reflect a £616,000 increase in provisions related to associated undertakings.

Mr Peter Levy, chairman, said he believed the company had embarked on "a period of growth." The £20.8m raised in August via a placing had enabled Shaftesbury to exploit investment opportunities.

Sycamore in restructuring talks

Sycamore Holdings has called an extraordinary meeting on January 28 to consider steps to deal with the deterioration in the group's assets.

Directors said that the value of net assets had fallen to less than half of the company's called up share capital. This had been caused by a substantial deterioration in the trading position of Ashworth Living and Warwill, they added.

The Warwill factory was closed in August and assets subsequently sold, while Ashworth Living had been totally restructured, directors said.

On the basis of the new business strategy, the board is in discussions with its bankers for a capital reconstruction. The board said that it hoped to be in a position to put the proposals to shareholders in the near future.

Rolfe & Nolan falls but lifts dividend

Rolfe & Nolan, the futures and options computer bureau and software specialist, announced lower pre-tax profits for the six months ended August 31 of £609,000, against £707,000.

After higher tax of £441,000 (£295,000), earnings per share fell from 8.9p to 6.1p. The interim dividend, however, is lifted to 2.805p (2.55p).

In Europe the pre-tax surplus rose from £813,000 to £1.21m but North American losses grew to £600,000 (£106,000).

Turnover expanded from £5.31m to £6.05m. Directors said group liquidity remained strong, with net short-term bank deposits of £2.5m.

Dencora disposals and acquisitions

Dencora, the property and housebuilding group, has sold two investment properties, at Harlow and Northampton, for a total £2.85m.

It has also acquired various properties for potential trading or development in Middlesex, Berkshire and Lincolnshire for £7m.

Sterling Publishing 26% up at £1.3m

Profits before tax of Sterling Publishing Group, the USM-traded publisher of advertising-financed journals, rose to £1.31m for the half year ended September 30.

That was an improvement of 26 per cent over last time's £1.04m and came from turnover ahead 16 per cent at £17.1m. Interest charges were cut to £361,000 (£654,000).

The group's publishing cycle remains concentrated in the second half and the directors said first half profits should not be taken as a guide to the full year results.

As an indication of their expectations for the full 12 months they are lifting the interim dividend from 0.6p to 0.7p. Fully diluted earnings per share amounted to 1.9p (1.5p).

Allied-Lyons and Pernod in swap deal

Pernod-Ricard and Allied-Lyons have concluded a whisky-swap agreement, the French drinks group said yesterday.

No financial details were disclosed.

The deal involves Pernod, through its Irish Distillers offshoot, ceding the Tullamore Dew brand to Allied-Lyons' Cantrell and Cochrane operation in exchange for the latter's Royal Canadian brand.

US operation hits Feedback profits

Feedback, the USM-quoted designer and maker of electronic, electrical and computer-based equipment, reported a fall in pre-tax profits from £340,600 to £267,900 for the six months to September 30.

Turnover was lower at £4.47m (£4.53m), reflecting continued uncertainties in the domestic industrial market, Mr John Westcott, chairman, said.

Feedback Instruments improved its performance while Feedback Data remained in profit, Mr Westcott said. However, the US operation continued to be affected by tight state budgets and incurred a loss in the period.

An interim dividend of 0.5p is declared from earnings of 2.13p (2.41p) per share.

Sales rise gives fillip to Caffyns

A steady increase in car sales helped Caffyns, the motor dealer, report sharply increased pre-tax profits for the half-year to September 30.

The share price jumped 37p to 425p on news of the rise from £102,000 to £630,000 on sales of £74.7m (£61.5m).

After an exceptional charge of £29,000 (£94,000) related to branch rationalisation, operating profit came through at £1.14m (£737,000). Interest payable fell to £513,000 (£635,000).

The interim dividend is unchanged at 5p on earnings per share of 15.8p (0.4p losses).

TGI benefits from restructure

Restructuring benefits flowed through at TGI, the loudspeaker manufacturer, with pre-tax profits for the half year ended September 30 improving by 44 per cent to £501,000.

Turnover totalled £17.3m (£16m). Earnings picked up to 2p (1.5p) and the interim dividend is raised to 0.6p (0.5p).

Bank borrowings at period end had been reduced to £2.5m (£4.7m).

Brazilian Trust net asset value advances

Net asset value for the Brazilian Investment Trust improved from 100.3 cents to 117.24 cents over the six months to September 30.

Net revenue was $406,000 (£272,000), for earnings per share of 0.65 cents (0.84 cents).

COMMODITIES AND AGRICULTURE

Oil on the slide as Opec chief rules out 'miracle'

By Richard Mooney

The oil market's tentative rally was brought to an abrupt halt yesterday after it was warned not to look to the Organisation of Petroleum Exporting Countries for a "miracle solution" to the oversupply that was weighing down prices.

"If others wait for Opec to have a miracle solution, I don't think we have it," Mr Abdullah al-Attiyah of Qatar, president of the oil producers' group, told reporters after informal talks in Damascus with other Opec ministers, including Mr Hisham Nazer of Saudi Arabia, the biggest exporter.

He also suggested that it was time for non-Opec exporters to shoulder their share of the burden of supporting oil prices. Opec could not be the world's "swing producer" of oil and make way for others to take its market share, he said.

Mr al-Attiyah's comments appeared to have extinguished any lingering hopes that Opec producers might yet rally round to bolster prices by cutting the organisation's production ceiling from the 24.52m barrels a day set in September and left unchanged after last month's ministerial meeting.

On the European spot market Tuesday's 11 cents rise in the January delivery price of Brent blend, the North Sea marker crude, was quickly wiped out, and the price slumped 60 cents to a fresh five-year low of $13.27 a barrel before buyers were attracted into the market. In late trading January Brent was quoted at $13.63 a barrel, down 25 cents on balance.

Also contributing to the bearish mood were American Petroleum Institute figures published overnight showing a 5m-barrel increase US crude oil stocks. And yesterday the Paris-based International Energy Agency said October demand in member countries of the Organisation for Economic Co-operation and Development fell by 500,000 b/d over the past month, against the normal seasonal trend. The decline was mainly in European gasoil (heating oil) deliveries.

● The Opec president's statement in Damascus signalled that "the cartel is pushing hard for a serious effort by non-Opec producers to accept the responsibility for oil output restraint", says London trade house GNI in the latest issue of its Oil Graphical Supplement, published today.

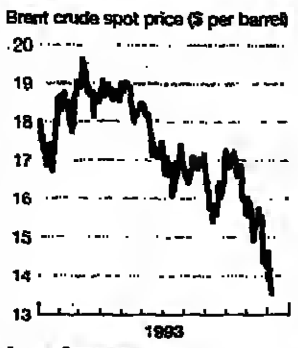
"Some countries are already indicating their willingness to join forces with the cartel," GNI says, "but the question is: How low do prices need to fall before North Sea producers agree to cut output?"

Although it says most analysts believe a protracted period with prices below $5 a barrel would be needed for production in the North Sea to be shut down, GNI suggests that a degree of co-operation may be seen much sooner – "but even that would probably require a fall in price below $10 a barrel [for Brent crude]".

Following the Opec ministers failure to reduce the output ceiling "the oil market now has to cope with a perpetuation of the excess stocks situation", GNI says.

"While stock levels may not look excessive on a historical basis, the general view that Opec will not do anything to tighten supply this winter means that oil refiners can reduce contingency reserves to a bare minimum. The additional prospect of Iraq's return to the world market, now a virtual certainty by the end of 1994, means that it will be difficult for the cartel to raise prices for the next two years."

Oil price



Source: Datastream

Ivory Coast concern underpins cocoa prices

By Deborah Hargreaves

Cocoa prices moved higher yesterday as the market remained perturbed about a possible power struggle in the Ivory Coast – the world's biggest producer – following the death of president Felix Houphouet-Boigny on Tuesday.

The price for the second position futures contract at the London Commodity Exchange rose by £8 a tonne to £1,050 a tonne.

Reports that the republic could have problems meeting its December sales commitments despite the resumption of normal working also supported cocoa prices. "It underlines the fact that any civil or political difficulties in a power struggle could make things worse," said Mr Lawrence Eagles, at GNI, the London commodities house.

The speaker of the Ivory Coast parliament yesterday declared himself president, but the prime minister, who is backed by the army claimed this was not constitutional.

Cocoa prices are expected to remain high until the succession in the Ivory Coast becomes apparent. The market has been rising on expectations of a shortfall in this year's crop as consumption continues to increase.

Silver market surges to $5 an ounce

By Richard Mooney

The silver price surged above the US$5-a-troy-ounce mark for the first time in four months yesterday, dragging gold and platinum in its wake. At the London close the cash price stood at 500.5 cents an ounce, the 15-cent rise on the day extending its advance over the past six trading days to 56 cents.

Gold was up $6.95 at $383.25 an ounce, also a four-month high, while platinum gained a comparatively modest $3.30 to $380.20 an ounce.

Dealers said silver was continuing to attract keen interest from US investment funds as falling oil prices raised hopes of a further easing of inflationary pressure.

Mr Andy Smith, analyst at the Union Bank of Switzerland in London, explained that low inflation and the perceived upturn in the US economy were bullish for silver, principally an industrial metal, but bearish for gold, still widely regarded as a haven for funds in times of economic difficulty. Platinum, though also an industrial metal, was benefiting less than silver because of its heavy reliance on consumption in Japan, where economic problems were deepening, Mr Smith said.

Underlying the stronger tone in the precious metals markets, he added, was the development of "cash anxiety" among investors as interest rates fell. Lower rates also made it cheaper to "have a bet" on markets that were widely believed to have already seen their lows.

"It has been encountering tremendous interest from the funds," Ms Rhona O'Connell, analyst at brokers T. Hoare and Company, told the Reuter news agency. "And its low unit price as a metal makes it even more attractive than gold." She said that the funds had begun to take an extra interest in silver about a month ago, at a time when physical purchases by Saudi Arabia were very strong.

Silver was being used there as a relatively cheap method of hedging against a possible devaluation of the riyal, she explained.

Analysts also pointed out that silver shipments to India had been very strong throughout this year, following the easing of restrictions on imports.

Australian miners in Sardinian gold project

By Nikki Tait in Sydney

Two small Australian gold-mining companies yesterday secured a 70 per cent interest in a joint venture company that hopes to produce gold commercially in Sardinia, the Mediterranean island, by 1995.

No gold-mining facility has been ever been developed in Sardinia, although the island was mined in Roman times for copper and lead. However, Gemcor, whose shares are listed in both London and Australia, and General Gold, in which Rothschild Australia holds a controlling interest, said that a six-month feasibility study was under way and that, if this was favourable, they hoped to begin production by early-1996.

The initial annual production target is 500,000 tonnes of ore, and mining will be centred at Furtei, 35km north of Cagliari, Sardinia's capital.

The project will be developed by a joint venture company, to be called Sardinia Gold Mining. Gemcor and General Gold will buy their respective 35 per cent interests in SGM from Progemisa, a local quasi-government organisation which was set up to develop resource-based opportunities in Sardinia. According to the Australian partners, Progemisa has already been involved in ceramics and crystal ventures in the region. Gemcor and General Gold will pay A$2.3m each for their SGM interests, and Progemisa will continue to hold the remaining 30 per cent stake.

All three partners will then contribute around A$5m to fund the development programme. In addition, they plan to seek further project funding – perhaps to the tune of A$5m – from either the Italian government or through European regional assistance programmes. The total initial cost of the project is estimated at A$18m, and the balance being funded by bank loans.

Gold exploration in Sardinia began in the late-1980s, and a programme of drill holes has suggested four principal resources, at Furtei and also to the north of the island. The chairman of Gemcor, Mr Geoff Cohen, said yesterday that early drilling at Furtei had suggested oxide resources of between 1.5m and 2m tonnes at a grade of 2 to 2.5 grammes a tonne.

According to Mr Barry Bolitho, from the Resource Service Group mining consultancy, these resources "appear to be the cap of the epithermal systems and cover widespread gold sulphide mineralisation".

"RSG has concluded that the current resources at Furtei contain between 304,000 and 377,000 ounces depending on the upper cut", he said.

General Gold and Gemcor, via an associate company, are already partners in the Mt Monger gold project in Kalgoorlie, Western Australia.

US technical analysts foresee further falls

US technical analysts said last night that the New York Mercantile Exchange crude oil contract's six-month downtrend remained intact and that a safety net would not arrest the fall until about $13 a barrel, $1.40 below the five-year low reached in early trading, reports Reuter from New York.

"In order to establish a short-term bottom, we need a settlement above $15.08 on the spot crude," said Mr Henry Marchell, technical analyst at Lehman Brothers.

If crude can hold support at $14-$14.25 then prices will likely trade sideways to higher, but still in the context of a bear market, for two to three weeks, he added. His downside target was $12.80 if support at $14 failed.

"It's still a bear market," said Mr Bill Billings, director of Nymex trading at Phillips Petroleum. "I think it's at the bottom of a weekly channel but if it trades below these levels, I see projections to $12.67 and $12.10." He said crude had fallen to his initial downside targets, based on the summer-time price activity, but prices were still vulnerable.

The steep price drop had led many analysts to believe a sharp technical correction was needed to alleviate the oversold situation. But they conceded that in many cases the momentum indicators were irrelevant, similar to a overbought condition before the Gulf War when prices were high for several months.

Nymex crude has fallen from $21 a barrel in May, a 31 per cent drop.

Support also exists, traders said, at a gap on the weekly charts from 1988 at $14.25-$13.99 a barrel. The 1988 low was $12.28.

Lead smelter to close because of low prices

By Nikki Tait

Mount Isa Mines, the Queensland-based metals operation that is part of the Brisbane-based MIM group, yesterday announced that it was closing down the smaller of its two lead smelters because of low metal prices.

The company said that there was now insufficient feed from the Mount Isa mine to utilise fully its conventional smelter and the Isasmelt plant, which employs newer technology.

Earlier this year, MIM reduced zinc-lead ore production from the Mount Isa and nearby Hilton mines to 85 per cent of the increased capacity of the mines. However, the lead smelters were able to maintain output by feeding off stockpiles of concentrate. These have now been exhausted.

As a result, the Isasmelt smelter, which had achieved its planned capacity of 60,000 tonnes a year, will close down for an indefinite period. The remaining plant will produce a rate of 3,300 tonnes a week. The company said that it was aiming for total annual lead production of about 180,000 tonnes, compared with just over 206,000 tonnes in 1992-93.

Mount Isa Mines declined to say how much closing down the smelter would cost, but said that the 40 people employed there would be offered jobs in other parts of the organisation.

● Signet Engineering, a Perth-based engineering company, and the West Australian government Gold Corporation have won a contract to establish a new gold and silver refinery near Chengdu, in south-west China.

The contract was negotiated with the China Banknote Printing and Minting Corporation, and announced yesterday by Mr Richard Court, the Western Australian premier. The two organisation will provide technology, equipment and staff training for the plant over the next 18 months.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1080-80.5	1100.5-01
Previous	1088-89	1108.5-09
High/low		1109/1097
AM Official	1085.5-86	1105.5-06
Kerb close		1103-04
Open int.	272,189	
Total daily turnover	47,903	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	949-51	973-75
Previous	953-55	976-77
High/low		
AM Official	952-53	975-76
Kerb close		970-73
Open int.	2,555	
Total daily turnover	249	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	447.5-48.5	461-62
Previous	447.5-48.5	461-62
High/low		470/461
AM Official	448-49	462-62.5
Kerb close		462-63
Open int.	29,545	
Total daily turnover	4,685	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4960-70	5020-25
Previous	4975-85	5035-40
High/low		5065/5000
AM Official	4374-75	5030-31
Kerb close		5020-30
Open int.	49,815	
Total daily turnover	11,084	

■ TIN ($ per tonne)

	Cash	3 mths
Close	4755-65	4810-20
Previous	4785-90	4835-40
High/low		4840/4780
AM Official	4783-88	4835-40
Kerb close		4810-20
Open int.	15,678	
Total daily turnover	3,806	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	980-81	998-99
Previous	980-81	998-98.5
High/low		1007.5/997
AM Official	989-89.5	1006-06.5
Kerb close		1000-01
Open int.	86,465	
Total daily turnover	32,333	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1674-75	1697-98
Previous	1678-79	1700.5-01
High/low	1680/1679.5	1706/1695
AM Official	1679-79.5	1701.5-02
Kerb close		1697.5-98.5
Open int.	214,094	
Total daily turnover	82,385	

■ LME AM Official £/$ rate: 1.4917
LME Closing £/$ rate 1.4895

Spot:1.4880 3 mths:1.4913 6 mths:1.4855 9 mths:1.4816

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Dec	76.75	-	77.00	76.45	3,222	1,095
Jan	77.05	+0.05	77.30	76.70	1,533	163
Feb	77.30	+0.05	77.40	77.40	997	12
Mar	77.60	+0.05	77.00	77.20	44,382	7,690
Apr	77.80	+0.05	73.00	76.00	551	50
May	77.95	+0.05	76.20	77.60	7,392	578
Total					70,768	9,769

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	383.00-383.50	
Opening	377.20-377.60	
Morning fix	377.15	253.070
Afternoon fix	382.30	256.548
Day's High	383.25-383.75	
Day's Low	377.00-377.40	
Previous close	376.10-376.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.70	6 months	2.72
2 months	2.71	12 months	2.79
3 months	2.71		

Silver Fix	p/troy oz.	US cts equiv.
Spot	332.75	494.00
3 months	336.60	499.45
6 months	340.55	503.50
1 year	348.20	512.70

Gold Coins	$ price	£ equiv.
Krugerrand	378-381	254-257
Maple Leaf	394.20-396.70	
New Sovereign	88-91	69-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	383.8	+8.4	384.5	378.5	1,188	138
Jan	384.7	+8.4	384.0	382.5	13	12
Feb	385.7	+6.4	386.7	380.3	77,207	26,332
Apr	387.5	+6.4	388.5	382.3	11,810	245
Jun	389.4	+6.5	390.4	384.7	30,537	87
Aug	391.3	+6.5	391.2	388.3	5,515	6
Total					142,524	27,208

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	383.0	+5.3	-	-	-	1
Jan	383.7	+5.3	384.0	380.0	9,755	2,421
Apr	385.4	+5.3	386.0	381.5	5,644	1,308
Jul	386.5	+5.4	387.0	384.5	1,557	30
Oct	387.8	+5.4	386.0	386.0	168	2
Jan	389.1	+5.4	-	-	25	-
Total					17,150	3,761

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	128.20	+0.65	128.50	127.00	47	13
Jan	-	-	-	-	-	-
Mar	128.20	+0.40	130.25	127.50	3473	356
Jun	126.95	+0.40	128.50	127.50	707	21
Sep	126.45	+0.40	127.50	127.50	51	1
Dec	125.45	+0.40	-		13	-
Total					4,283	390

■ SILVER COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	497.5	+6.9	506.0	492.0	701	230
Jan	498.4	+6.8	503.0	503.0	32	6
Feb	499.8	+6.8	-	-	1	-
Mar	501.3	+6.8	510.0	496.0	64,790	22,923
May	504.5	+6.9	514.0	499.0	8,389	221
Jul	507.8	+7.0	514.5	506.0	18,542	4,268
Total					107,222	30,201

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	14.54	-0.16	14.88	14.40	104,116	63,608
Feb	14.86	-0.13	14.97	14.69	74,744	34,837
Mar	15.15	-0.14	15.26	15.04	40,382	13,475
Apr	15.44	-0.11	15.52	15.35	21,264	3,048
May	15.71	-0.08	15.74	15.60	20,399	3,070
Jun	15.94	-0.07	16.02	15.80	36,686	5,710
Total					430,840	138,925

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	13.46	-10	13.56	13.27	81,899	26,487
Feb	13.71	-10	13.79	13.54	51,335	12,836
Mar	13.97	-11	14.03	13.81	14,327	2,169
Apr	14.22	-8	14.22	14.14	10,231	321
May	14.52	-	14.52	14.34	4,899	460
Jun	14.70	-	14.71	14.61	4,981	275
Total					175,310	43,908

■ HEATING OIL NYMEX (42,000 US galls.; $/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	43.80	-74	44.30	43.40	74,059	21,966
Feb	44.90	-51	45.30	44.60	28,686	9,354
Mar	45.60	-36	45.90	45.35	20,292	4,243
Apr	45.55	-21	45.70	45.40	15,251	1,868
May	45.45	-16	45.70	45.20	20,764	1,896
Jun	45.70	-1	45.80	45.20	9,789	1,270
Total					190,569	41,124

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	142.00	-200	142.50	140.75	20,945	6,7788
Jan	142.00	-225	142.50	140.50	34,292	11,510
Feb	142.75	-175	143.50	141.75	20,335	2,468
Mar	144.00	-100	144.25	142.00	14,713	1,691
Apr	145.50	+25	145.00	143.25	6,637	422
May	145.00	-	145.25	143.50	5,463	512
Total					120,144	28,710

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	1.980	0.084	2.030	1.965	23,942	14,381
Feb	1.900	0.065	1.930	1.880	15,860	3,171
Mar	1.870	0.050	1.900	1.865	11,248	2,321
Apr	1.875	0.045	1.905	1.875	10,394	2,416
May	1.900	0.040	1.915	1.830	7,638	1,359
Jun	1.900	0.040	1.925	1.900	7,120	1,373
Total					128,045	31,500

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; $/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	0.4015	-62	0.4050	0.3980	60,880	16,883
Feb	0.4195	-51	0.4230	0.4160	21,456	7,135
Mar	0.4335	-55	0.4355	0.4320	14,713	2,935
Apr	0.4680	-45	0.4690	0.4665	17,869	1,123
May	0.4770	-48	0.4820	0.4735	21,043	1,945
Jun	0.4830	-87	0.4850	0.4810	4,913	1,051
Total					144,548	31,384

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	101.30	+0.55	101.25	100.90	1,173	215
Mar	102.50	+0.45	102.50	102.20	2,046	216
May	104.20	+0.50	104.25	104.25	1,827	161
Jul	105.00	+0.25	105.00	105.00	103	5
Sep	89.75	-	-	-	321	-
Nov	91.90	-	-	-	95	-
Total					5,364	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	363/6	-3/2	368/4	363/2	9,845	6,310
Mar	363/0	-1/0	366/4	362/4	164,873	42,515
May	349/6	-1/2	353/4	349/6	30,185	3,530
Jul	327/2	-1/6	330/0	326/4	39,755	6,780
Sep	332/2	-1/2	335/0	326/4	2,265	200
Dec	339/4	-1/2	341/6	339/0	3,490	630
Total					250,573	60,485

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	290/2	+3/2	290/6	286/4	66,750	28,310
Mar	296/4	+3/4	297/4	293/0	663,490	134,325
May	299/2	+3/0	299/6	296/0	271,375	34,185
Jul	285/6	+1/4	289/2	287/2	284,235	20,285
Sep	281/4	+1/4	281/6	279/6	37,935	3,080
Dec	265/0	+1/2	265/2	263/4	141,735	13,010
Total					[illegible]	[illegible]

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	105.15	-0.05	105.10	105.10	309	17
Mar	106.50	-	106.50	106.50	574	5
May	107.90	-	-	-	137	-
Sep	92.65	-	-	-	40	-
Nov	95.00	-	-	-	13	-
Jan	-	-	-	-	-	-
Total					1,133	22

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	685/6	+1/6	685/0	680/0	115,285	125,930
Mar	693/2	+2/4	694/4	688/6	185,390	37,085
May	694/6	+1/2	697/4	691/6	127,215	9,773
Jul	696/0	+2/2	699/0	692/0	121,400	12,040
Aug	691/2	+3/4	692/4	686/4	19,170	750
Sep	662/4	+1/6	663/0	660/6	13,415	180
Total					[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	27.15	-0.01	27.27	27.03	3,843	2,075
Jan	27.19	+0.05	27.29	27.05	28,726	11,695
Mar	27.19	+0.05	27.27	27.05	28,405	6,770
May	26.90	+0.11	26.92	26.71	13,573	2,410
Jul	26.61	+0.14	26.51	26.35	9,899	1,294
Aug	26.00	+0.20	26.15	25.90	2,953	323
Total					[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	207.6	+0.7	208.6	207.1	5,367	1,860
Jan	206.9	+0.6	206.7	204.6	28,215	9,324
Mar	205.1	+1.1	205.7	204.2	27,137	4,229
May	205.0	+1.4	205.5	203.8	10,504	1,575
Jul	203.1	+1.5	203.3	202.4	9,590	1,422
Aug	201.4	+1.4	203.7	200.4	3,689	[illegible]
Total					83,914	[illegible]

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	118.0	-	-	-	71	-
Apr	88.2	+0.4	88.3	88.0	1,383	35
May	106.8	-	106.6	105.6	426	20
Jun	130.0	-	-	-	3	-
Nov	85.0	-	-	-	6	-
Mar	105.0	-	-	-	-	-
Total					2,040	58

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	1248	-	1252	1250	208	3
Jan	1253	+10	1260	1252	1,026	15
Feb	1230	+10	1230	1225	461	12
Apr	1225	+15	1225	1225	222	2
Jul	1155	-	-	-	151	-
Oct	1224	-	-	-	54	-
Total					2,468	27

	Close	Prev
BFI	1247	1248

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	989	+12	998	980	293	93
Mar	1051	+8	1061	1041	47,732	1,838
May	1061	+13	1041	1053	17,758	1,212
Jul	1012	+10	1022	1008	13,367	1,386
Sep	1049	+8	1049	1040	7,341	349
Dec	1040	+8	1040	1049	10,380	35
Mar	1030	+8	1024	1029	13,601	65
Total					140,805	4,325

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	1277	+9	1283	1277	448	104
Mar	1287	+8	1298	1264	40,295	8,263
May	1312	+10	1322	1305	13,337	1,388
Jul	1339	+12	1345	1333	8,986	869
Sep	1355	+11	1360	1354	8,371	5
Dec	1365	+10	1365	1363	8,053	2
Total					93,388	10,659

■ COCOA (ICCO) (SDR's/tonne)

Dec 7	Price	Prev. day
Daily	1021.51	1032.27
10 day average	1023.71	1022.77

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	1229	-8	1236	1230	13,299	1,230
Mar	1230	-6	1248	1218	14,120	1,519
May	1219	-2	1225	1208	6,123	523
Jul	1213	-3	1213	1208	53	51
Sep	1212	-	-	-	839	-
Nov	1211	+5	1215	1212	172	7
Total					23,898	3,335

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	75.45	+0.75	75.45	74.00	346	54
Mar	77.15	+0.40	77.50	75.90	38,541	6,565
May	78.35	+0.35	78.90	77.40	8,434	803
Jul	79.80	+0.45	79.75	78.30	1,764	76
Sep	81.00	+0.50	81.00	80.00	1,508	354
Dec	82.25	+0.30	-	-	1,048	165
Total					[illegible]	[illegible]

■ COFFEE (ICO) (US cents/pound)

Dec 7	Price	Prev. day
Comp. daily	[illegible]	70.30
15 day average	70.78	70.57

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	10.88	-0.01	10.87	10.85	1,245	30
May	10.95	-	-	-	885	-
Jul	11.04	-	-	-	2,941	-
Oct	11.12	-0.14	11.02	11.02	45	5
Total					[illegible]	[illegible]

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	282.80	-0.70	283.50	282.20	7,775	335
May	284.60	-0.90	284.10	283.50	1,724	111
Aug	290.00	-0.50	289.60	289.00	1,473	32
Oct	277.40	-0.50	277.00	276.30	1,712	51
Dec	276.90	-1.00	-	-	177	-
Mar	279.80	-3.00	-	-	50	-
Total					12,846	549

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	10.85	-0.01	10.88	10.83	51,375	11,200
May	10.90	+0.01	10.82	10.79	20,087	1,221
Jul	10.78	-	10.79	10.67	14,868	1,769
Oct	10.73	-0.01	10.75	10.65	11,794	582
Mar	10.73	-0.01	10.67	10.67	6,554	185
May	10.73	-0.01	-	-	1,259	155
Total					[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	64.16	-0.69	64.80	64.00	[illegible]	[illegible]
May	65.14	-0.61	65.75	64.95	26,889	8,260
Jul	66.10	-0.43	66.60	65.85	7,490	1,709
Oct	64.85	-0.05	64.82	64.70	5,137	33
Dec	63.85	-0.10	63.95	63.58	726	18
Mar	64.55	-0.40	64.50	64.30	4,442	435
Total					[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	109.00	+3.35	109.00	105.60	10,430	1,659
Mar	108.75	+2.45	109.50	106.10	5,975	822
May	111.50	+3.75	112.00	109.50	2,708	258
Jul	114.05	+4.00	114.00	112.50	771	3
Sep	115.60	+4.00	116.00	116.00	161	3
Nov	116.60	+4.00	-	-	54	-
Total					26,467	1,851

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	70.875	0.250	77.250	70.500	8,858	3,781
Feb	72.800	+.050	72.825	72.150	31,223	7,957
Apr	75.300	+.425	75.400	74.750	18,948	1,846
Jun	73.350	+.450	73.500	72.750	11,728	1,087
Aug	71.875	+.450	72.100	71.550	5,869	528
Oct	72.000	+.500	72.000	71.500	1,885	58
Total					78,331	15,895

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	44.100	0.325	44.425	44.800	2,067	1,144
Feb	46.775	0.050	47.125	46.550	11,798	2,611
Apr	47.225	+.300	47.325	46.825	4,482	759
Jun	52.675	0.025	53.150	52.750	3,010	300
Jul	52.500	+.175	52.850	52.325	794	32
Aug	51.575	+.175	51.200	50.850	604	19
Total					23,498	4,831

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	53.700	+.150	54.100	53.250	5,782	1,769
Mar	53.975	+.150	54.100	53.600	1,629	297
May	54.825	+.375	55.150	54.300	1,243	227
Jul	55.850	+.100	55.750	55.150	1,197	665
Aug	53.850	+.250	54.000	53.300	128	17
Total					[illegible]	[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1050	87	82	10	17
1075	48	70	18	25
1100	27	51	30	35

■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
1600	98	123	5	15
1650	58	91	16	28
1700	30	62	37	48

■ COFFEE LCE	Mar	May	Mar	May
1150	87	112	1	28
1200	53	87	7	53
1250	21	53	25	79

■ COCOA LCE	Mar	May	Mar	May
950	111	120	19	30
1000	73	104	28	39
1050	48	68	36	49

■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1400	7	-	40	70
1450	2	25	-	110
1500	-	10	-	145

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan)

		+or-
Dubai	$12.00-2.10	-0.26
Brent Blend (dated)	$13.59-3.61	-0.27
Brent Blend (Jan)	$13.62-3.64	-0.25
W.T.I. (1pm est)	$14.63-4.65	-0.29

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$141-143	-2
Gas Oil	$148-149	-2.5
Heavy Fuel Oil	$84-86	
Naphtha	$130-133	-2
Jet fuel	$164-165	-2

Petroleum Argus Estimates

■ OTHER

Gold (per troy oz)♣	$383.25	+6.95
Silver (per troy oz)♣	500.5c	+5
Platinum (per troy oz.)	$380.20	+3.3
Palladium (per troy oz.)	$127.75	+2.85
Copper (US prod.)	[illegible]	
Lead (US prod.)	32.0c	
Tin (Kuala Lumpur)	11.90r	+0.05
Tin (New York)	223.5c	+3
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	122.14p	+3.43*
Sheep (live weight)†♠	89.09p	-1.97*
Pigs (live weight)	73.38p	+1.34*
Lon. day sugar (raw)	$272.00	+1.5
Lon. day sugar (wte)	$286.50	+1.5
Tate & Lyle export	£294.00	+2.5
Barley (Eng. feed)	[illegible]	
Maize (US No3 Yellow)	£129.0	
Wheat (US Dark North)	£175.0z	
Rubber (Jan)♥	60.75p	
Rubber (Feb)♥	61.00p	
Rubber (KL RSS No1 Jul)	208.0m	
Coconut Oil (Phil)§	$607.5x	+40
Palm Oil (Malay)§	$416.0y	+17
Copra (Phil)§	$360.0	+17.5
Soyabeans (US)	£200.0	+2
Cotton "A" Index	68.60c	+0.9
Wooltops (64s Super)	339p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. [illegible]

INDICES

■ REUTERS (Base: 18/9/31=100)

Dec 8	Dec 7	month ago	year ago
1649.6	1640.0	1614.7	1566.9

■ CRB (Base: [illegible])

Dec 7	Dec 6	month ago	year ago
222.34	220.58	-	202.76

COTTON & JUTE

LIVERPOOL- Spot and shipment sales amounted to 248 tonnes for the week ended 3 December, against 197 tonnes in the previous week. Improved demand brought moderate purchases, mainly in Turkish and Syrian styles. CIS and Benin growths made some headway.

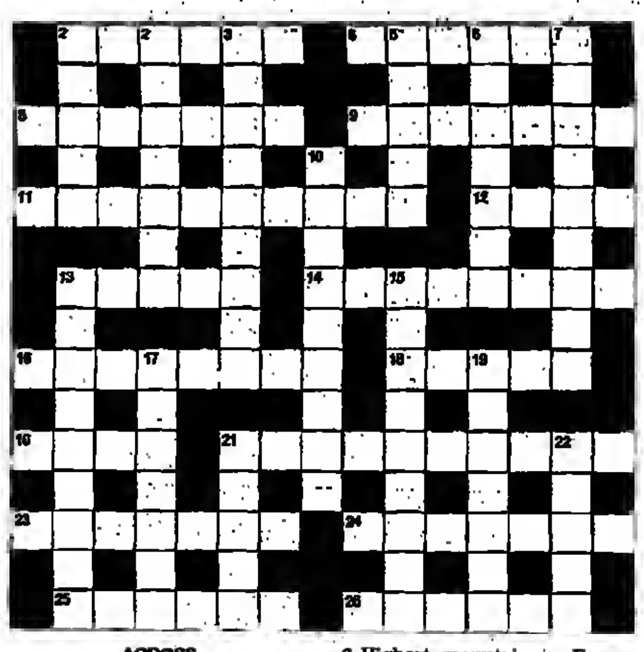
C and F Dundee, BTC US$465, BWC US$490, BTD US$440, BWD US$455. C and F Antwerp, BTC US$455, BWC US$455, BTD US$425, BWD US$425.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

CROSSWORD

No.8,327 Set by GRIFFIN



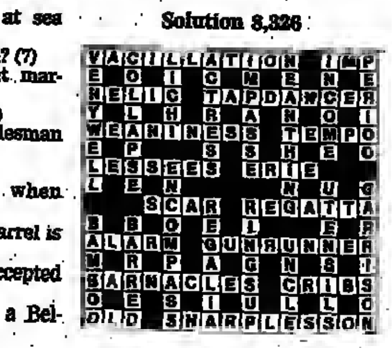
ACROSS

1 Parking by lake till .... (6)
4 .... tired, notice shelter to go into (5)
8 I cooked it with cod – I must be foolish! (7)
9 Still regret going without income (7)
11 Picture that is to include all trust members (10)
12 Keenness of journalist, middle-aged (4)
13 Which identifies guide leader invited round (5)
14 Cut a member short? (8)
16 Is placed in new cars in plants (8)
18 Name jug that is more modern (5)
20 Bridge in European country one overlooked (4)
21 Greedy louts on tug at sea (10)
23 One with a big food bill? (7)
24 Everyone ought to get married, granted (7)
25 Followed girl in goal (6)
26 Press fool to take salesman back (6)

DOWN

1 Gets things moving when under pressure (5)
2 Having round in gun barrel is bombastic (7)
3 Suspect involved till accepted innocent (9)
5 Story backed, say, by a Belgian city (5)
6 Highest mountain in France is always ahead (7)
7 Made sentry go mad about high-class youth (9)
10 Roomy and better attic is vacant – promises to pay for it (9)
13 Swear he blames dancing round piano (9)
15 Father Brown returns girl's cigar (9)
17 Confectionery tin comes to an end (7)
19 Attractive gamblers often do (7)
21 Where fire is sounds important (5)
22 In USSR once key employees (5)

Solution 8,326



JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Gilts auction boosts equities to new peak levels

By Terry Byland,
UK Stock Market Editor

Institutional buyers flooded back into the London equity market yesterday, driving the FT-SE 100 Index ahead by just over 40 points to an all-time closing high. Tumbling bond yields, following the successful outcome of the auction of £3bn worth of government securities, provided a fresh boost to the argument for buying UK equities, and London also joined in the rise in European bourses that reflected hopes that the Uruguay Round of trade talks are close to accord.

The Footsie ended at 3,277.4, a gain of 40.1 points, having touched a new intraday peak of 3,279.5. The lead came, once again, from the stock index futures, where the December contract challenged the 3,300 mark as both marketmakers and investors struggled to position themselves ahead of a fast-rising stock market.

Confidence that UK base rates will be cut again very soon strengthened following the gilt-edged auction, and was fuelled by similar expectations across Europe. Traders said that buying of UK equities came from across the range of global investment centres, and also from domestic funds. One dealer estimated buying orders to selling orders at 10 to one over the past week.

The stock market closed on a note of optimism as sterling improved and there were reports that the Governor of the Bank of England had expressed optimism on prospects for base rates and for domestic inflation.

Account Dealing Dates		
*First Dealings: Nov 29	Dec 13	Jan 4
Option Declarations: Dec 9	Dec 30	Jan 13
Last Dealings: Dec 10	Dec 31	Jan 14
Account Day: Dec 20	Jan 10	Jan 24

*New time dealings may take place from two business days earlier.

The rush of buyers increased the pressures on London marketmakers, already very short of stock in both equity and futures markets. For most of the session, the futures contract was at a premium of more than 20 points against, a highly unusual development when the contract has only a short time left to run.

The most powerful advance came in bank share prices as renewed optimism on the dividend outlook buttressed views that falling interest rates will work wonders for loan books. The rest of the financial sector was also in strong form, as were property stocks. Utility stocks also performed strongly on expectations of dividend growth.

Store and consumer issues, however, traded less aggressively since base rate hopes have already been taken into prices.

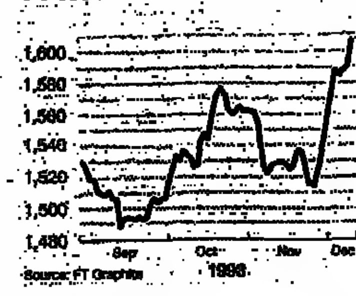
Blue chip internationals were firmer, with the exception of the oil majors which struggled to hold on to early gains against the background of disappointing crude oil prices.

Demand across the full range of the market brought a further advance in the FT-SE Mid 250 Index, which closed 21.9 up at a new peak of 3,589.9. Seaq volume jumped from 689.7m shares on Tuesday to 821.4m yesterday; on the session following the Budget Speech, Seaq volume totalled more than 1.2bn shares. High levels of retail, or customer, business have continued this week, bringing a value figure of £1.44bn for Tuesday's session.

Traders identified renewed demand for UK equities by some of the large New York investment banks and securities houses, which had appeared to back away slightly from London since the turn of the month.

● The following changes to the FT-SE 100 Share Index have been approved by the FT-SE Actuaries UK Indices Committee. For inclusion; Eastern Electricity, Scottish Hydro-Electric. For exclusion; Northern Foods, NFC. Details on UK Companies pages.

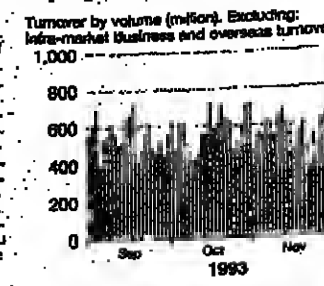
FT-A All-Share Index



Source: FT Graphics

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT SE 100	3277.4	+40.1	FT Ordinary Index	2454.4	+24.6
FT-SE Mid 250	3589.9	+21.9	FT-A 500 p/e	20.57	(20.43)
FT-SE-A 350	1628.3	+17.8	FT-SE 100 Fut Dec	3291.0	+44.5
FT-A All-Share	1607.58	+16.51	10 yr Gilt yield	6.37	(6.43)
FT-A All-Share yield	3.53	(3.58)	Yield ratio:	1.95	(1.93)

Best performing sectors		Worst performing sectors	
1 Electricity	+3.3	1 Textiles	-1.6
2 Banks	+2.4	2 Oil & Gas	-0.3
3 Water	+2.4	3 Contracting,Const	-0.3
4 Transport	+2.2	4 Electronics	-0.2
5 Brewers & Distillers	+1.9	5 Health & Household	-0.1

Erratic session in Rank

A rollercoaster ride in Rank Organisation saw the shares jump wildly yesterday in response to contrasting reports. The stock opened brightly, spurred by a heavyweight buy note from Kleinwort Benson which stressed the group's long term recovery potential and its balance of profit centres.

After jumping some 15p, the bears were alerted by press reports that Xerox, which co-owns the Rank Xerox subsidiary, had settled a court case in the US at a cost of $225m. There was further bad news as Xerox announced later in the session a $700m restructuring charge for its fourth quarter.

However, with little guidance said to be forthcoming from Rank, London leisure analysts were unsure how much of this would impact on the UK group's profits, although suggestions of a £60m hit were being talked down last night. Having been 20 off at one stage, the stock rallied with the market and further consideration of the Xerox news to close 10 ahead at 914p in busy turnover of 3m.

Textiles suffer

Courtaulds Textiles, one of the UK's leading textiles companies, saw its shares plunge 63p in pre-market trading after the company issued a stark profits warning.

The company said poor trading in Europe would ensure that 1993 profit would not improve on last year's figure. Analysts cut their forecasts, with BZW coming down from £45m to £37m and S.G. Warburg now looking for £38m.

Mr Laurence Rubin, Warburg's textiles analyst, said: "I think the company underestimated the strength of recovery, particularly in France. Another analyst said: "This was very bad news and a major surprise. I think the stock market has reacted quite correctly." The shares ended the day 54 lower at 489p.

Rival Coats Viyella fell initially but it has said Courtaulds Textiles' problems are specific to the group rather than the industry and the share price recovered to end a penny firmer at 274p.

However, William Baird fell 15 on the day to close at 242p, while Marks and Spencer, one of the leading sellers of Courtaulds' produce, lost 2½ to 451½p on heavy turnover of 10m shares.

CU in demand

Some big composite insurers, always boosted by big share price rises, which increase the composites' solvency ratios, were further influenced by a Hoare Govett note on the UK private motor market which favoured Commercial Union.

CU shares jumped 14 to 629p after Hoare told its clients that within the next three years one of the composites will be compelled to withdraw from the private UK motor market. Hoare analysts plump for Sun Alliance and, to a lesser extent, Guardian Royal Exchange. They expect a similar fate to befall at least one other general insurer.

Hoare says CU has the best UK motor insurance portfolio in the sector and "will prosper more than in the past". The broker adopted an increasingly bearish stance on Sun Alliance, however, telling clients to switch from Sun, and GRE, into CU. Hoare's recommendation left Sun one of only a handful of Footsie stocks to lose ground, closing 3 off at 366p.

Properties strong

Property stocks were at the vanguard of the market's surge as new industry statistics underlined the sector's recent strong performance.

Investment valuations for November in a survey by Richard Ellis, the property agency, show a rise of 15.6 per cent on a year ago and also the highest month-on-month rise from October since the index began 13 years ago. Land Securities hit a record high, jumping 16 to 783p, MEPC gained 14 to 560p, while British Land, reporting interims today, added 6 to 444p.

Conglomerate Hanson gained 4 to 264½p on news that the US miners unions had struck a tentative deal following a six-month strike against members of the Bituminous Coal Operators Association, which represents leading US coal companies. The strike hit Hanson's Peabody and Eastern Associated subsidiaries.

Dealers in the banks sector were by no means surprised at the latest attempts by some marketmakers to push through a widening of spreads in the sector. Some traders attempted to widen the previous 5p spread between buying and selling prices in the leading banks to 7p, but the move was resisted by three of the biggest traders in the sector, S.G. Warburg, UBS and Kleinwort Benson. Attempts by some marketmakers to widen dealing spreads in banks were first made last Friday.

The big UK institutions were said to have refused to deal at the wider spreads which reverted to 5p within an hour of the opening. Some marketmakers have come under increasing pressure in the sector which has been among the market best performing areas this year as provisions against bad debts have begun to shrink and low interest rates have reduced lending risks for the banks.

Profits are set to surge ahead, as are dividends, as shown by the recent profits surge and 25 per cent dividend increase announced by Royal Bank of Scotland.

The big squeeze in bank shares continued yesterday as marketmakers continued to bid prices higher to try to balance their trading books. All the high street banks hit all-time highs with Abbey National spurting 20 to 480p, TSB 6 to 241p, Barclays 14 to 642p, HSBC 14 to 802p, Lloyds 8 to 654p and NatWest 16 to 615p.

Talk that Mr David Michels, chief executive at Stakis, could be linked to a top job at Ladbroke was said to be one reason for the shares slipping badly yesterday. Analysts said Mr Michels support of Ladbroke's Hilton hotels arm at a court case in the US had prompted the speculation. Stakis, which finished the day 3 adrift at 59p, was also affected by newspaper reports of property valuations in the hotel industry. Ladbroke added 6½ to 152p.

Media conglomerate Pearson lifted 20 to 595p on hopes that the pricing of Camco International, its US oil services subsidiary, a majority interest of which is due to be floated in the US soon, was going well. Analysts said there were further potential gains from a successful conclusion of the GATT world trade talks, particularly in the international copyright. Gatt hopes also helped Reed International, up 18 to 823p.

MARKET REPORTERS:
Christopher Price,
Peter John,
Steve Thompson.

■ Other statistics, Page 22

■ NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (257)
BRITISH FUNDS (48) CANADIANS (1) Brascan, BANKS (11) ANZ, Abbey Natl., Bank of Scotland, Barclays, HSBC, Do. HK, Lloyds, Natl. Westminster, Royal Bank of Scotland, Standard Chart., TSB, BREWERS (4) Gibbs Mew, Morland, Scott. & New., Vaux, BLDG MATLS (8) BPB Inds., Baggeridge Brick, Caradon, Do. Pf., Meyer, Rugby, Sheffield Ins., Travis Perkins, Wolseley, BUSINESS SERVS (1) Fact (EW), CHEMS (2) Bayer, Halstead (J), CONGLOMERATES (2) Horizons & Crosfield, Hartin, CONTG & CONSTRCN (5) Banner Homes, Barratt Dev., EBC, ELECTRICALS (1) BICC Cap. Fin. 10¾pc Bds., ELECTRICITY (16) ELECTRONICS (1) Druck, ENG GEN (4) BSS, Clyde Blowers, Hampson, Molins, FOOD MANUF (2) Devro, Nestle, HEALTH & HSEHOLD (1) Amersham, HOTELS & LEIS (3) Castle Comms., Rank, Do. Pf., INSCE COMPOSITE (1) Allianz, INV TRUSTS (102) MEDIA (9) Capital Radio, Carlton Comms., Flextech, HTV, Haynes Pub., Reed Intl., Sleepy Kids, Southnews, Trinity Intl., MTL & MATL FORMING (3) Castings, Manganese Bronze, Simsmetal, MISC (5) BAT Inds. 12¾pc Ln. 2003/08, Birkby, Hoedlam, Heritage, LGW, MOTORS (5) Caffyns, Dixon, Lex Service, Lucas, Do. Warrants, OTHER FINCL (2) Natl Home Lns. Pf., Perpetual, OTHER INDLS (1) Whitecroft, PACKG, PAPER & PRINTG (4) AG, Bemrose, Kymene, Repola, PROP (6) Clarke Nickolls & Coombs, Evans of Leeds, Frogmore Ests., Greycoat, Land Secs., MEPC, Slough Ests. Pf., Warner Est., STORES (5) Argos, Cantors, Kingfisher, TELE NETWORKS (1) Securicor A, TEXTS (3) Atkins, Forminster, Yorklyde, TRANSPORT (3) BAA, Brit. Airways, Do. 9¾pc Cv., WATER (10) SOUTH AFRICANS (3) OK Bazaars, SA Brews., Tongaat-Hulett, PLANTATIONS (1) Bertam, MINES (16).

NEW LOWS (26)
BRITISH FUNDS (1) Exch. 13¼pc 1994, BREWERS (1) Taunton Cider, CHEMS (2) Calrd, Holliday, CONTG & CONSTRCN (1) Westport, ENG GEN (4) Barry Wehmiller, Ferrum, Ransomes, Tordy & Carlisle, FOOD MANUF (2) Northumbrian, Perkins, FOOD RETAILING (1) Iceland, HEALTH & HSEHOLD (3) Huntingdon Intl., Scholl, Smithkline Beecham A, MTL & MTL FORMING (1) Sycamore, MISC (1) WSP, OIL & GAS (2) Ex. Co. of Louisiana, Oceonics, OTHER INDLS (1) Harris (P), STORES (1) Pentos, TEXTS (3) Campari, Courtaulds Text., Dawson, TRANSPORT (1) NFC Var. Vtg.

Data based on those Companies quoted on the London Share Service.

EQUITY FUTURES AND OPTIONS TRADING

The December futures contract on the FT-SE 100 Index powered ahead yesterday to approach 3,300 and widen its lead over the underlying equity market, *writes Peter John.*

Derivatives rose rapidly after a £3bn gilts auction exceeded all expectations and marketmakers fought to cover exposed dealing positions.

Institutions were desperate to buy stocks with yield potential, such as bank, insurance and utility issues. The marketmakers who sold them were unable to cover themselves in the equity market and sought solace through the futures.

That buying pushed the premium to a high of 20 points against an estimated fair value which, on some valuations, is at a discount to the cash market.

December hit a peak of 3,297 before closing at 3,291, and then strengthened further in after-hours' trading. Closing volume was high at 16,253 lots. However, traders were beginning to get nervous, seeing the sharp rise as a squeeze which could easily turn round and catch the market out. "There could be a hell of an opportunity to make profits on the downside – it is just a question of timing," said one.

With only seven trading days until the expiry of the December contract, there is also growing concern over the very high level of open interest, the number of existing long and short positions. Open interest has to reach zero by expiry next Friday, and at the close of dealing yesterday it stood around 49,000.

Traded options volume recovered to a healthy 41,535 lots, against 29,697 on Tuesday. Hanson topped the list of stock options at 2,467.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3239.0	3291.0	+44.5	3297.0	3239.0	16253	48069
Mar	3259.5	3310.5	+44.5	3313.0	3259.5	3262	28108
Jun		3320.5	+44.5			0	861

Contract traded on APT. Open interest figures are for previous day.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3279) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

TRADING VOLUME

■ Major Stocks yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	8,600	48½	+1
Abbey National†	3,700	480	+20
Albert Fisher	871	63	
Allied-Lyons†	2,100	633	+13
Anglian Water†	1,300	571	+11
Argos	1,800	372	+4
Argyll Group†	4,800	259	+1½
Arjo Wiggins†	2,700	241	-2
Assoc. Brit. Foods†	1,000	640	+1
Ass. Brit. Ports	112	625	+1
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 index constituent.

FT-SE Actuaries Share Indices — The UK Series

	Dec 8	Day's chge%	Dec 7	Dec 6	Dec 3	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3277.4	+1.2	3237.3	3237.3	3234.2	2750.7	3.60	5.36	23.08	90.08	1196.96
FT-SE Mid 250	3589.9	[illegible]									
[illegible]											

■ FT-Actuaries All-Share

[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3234.1	3240.1	3239.5	3239.8	3264.7	3265.8	3267.9	3265.4	3278.9	3279.8	3233.9
FT-SE Mid 250	3569.3	3562.9	3559.2	3567.3	3573.0	3578.8	3579.0	3579.2	3586.0	3590.0	3568.6
FT-SE-A 350	1609.1	1611.1	1610.7	1619.2	1621.1	1622.5	1623.6	1622.8	1628.7	1628.9	1608.8

■ FT-SE Actuaries 350 Industry baskets

[illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	63	4	11
Other Fixed Interest	0	0	16
Commercial, Industrial	370	228	833
Financial	81	46	60
Property	34	5	81
Investment Trusts	242	14	275
Oil & Gas	22	22	37
Mines	73	8	62
Others	67	29	90
Totals	932	357	1,444

Data based on those companies listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Introduction. § Placing price. F.P. Fully-paid security. For an explanation of other notes, please refer to the Guide to the London Share Service.

FINANCIAL TIMES EQUITY INDICES

[illegible]

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2427.9	2432.2	2429.3	2439.9	2443.8	2445.9	2446.1	2447.7	2454.1	2454.8	2427.4

[illegible]

† Excluding intra-market business and overseas turnover.

TRADITIONAL OPTIONS

First Dealings	Dec. 6	Last Declarations	March 10
Last Dealings	Dec. 17	For settlement	March 21

3-month call rate indications are shown in Saturday editions.

[illegible]

AMERICANS

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

هكذا من الأصل

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1993 high	low	Yld Gr's	NAV	Dis or Pm(-)
Scot Asian Pig	♣□	302	+15	302	136	–	326.5	11.6
Warrants		783	+18	785	225	–	–	–
Scot East	♣‡□	63½	+1½	84	63½	2.3	94.7	11.6
Scottish Inv	♣□	280	+4	231	193	2.7	284.6	13.4
Warrants	□	76½	+½	35	30	–	–	–
Scot Mortgage	♣□	220	+5	236½	176	2.2	260.8	12.2
Scot National Inc	♣□	183	—	185	83	9.7	–	–
Cap	□	38	+1	39	76	–	134.0	72.4
Stepped Pf		108¼	+½	109¼	150¼	4.8	–	–
Zero Div Pf		232	+½	232	207	–	–	–
Warrants		5¼	+¼	5¼	2½	–	–	–
Scot Value	♣‡□	104xd	+½	104	71	2.2	106.2	2.0
Sec Alliance	♣N	1585	+5	1640	7390	3.5	1787.5	8.5
Second Consid	□	199	—	198	88	–	104.5	8.7
Second HGSC	□	106	—	108	101	–	98.0	-8.1
Second Market	♣N	410	+1	416	258	0.8	437.3	6.4
Sec Tst Scot	♣□	94	+½	94	74½	4.3	95.5	1.8
Select Assets	□	189	—	193	109½	8.9	193.1	17.1
Eq Ind Sed		157	+2	161	120	3.4	–	–
Eq Ind Sed		257	+2	157	128	3.4	–	–
SHIRESCOT	♣N	142	—	146	104	4.8	140.1	-1.3
Shires	♣N	315	+2	315	234	6.9	285.1	-8.6
Siam Select	♣	221	+6	221	97	0.8	275.6	20.1
Smaller Cos	□	134xd	—	135	78	2.4	135.2	6.0
Warrants		58	—	88	14	–	–	–
Sphere Inc	□	38½	+1	38½	14	10.1	40.4	22.6
Zero Div Pf		94⅞	+½	94½	80¼			
[illegible]								

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

	Notes	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's
[illegible]							
Ennex Intl IE	☆□	8¼	+½	8¼	3¼	7.35	–
Europa Mints	N□	23	—	42	15	15.9	–
Glencar Expl IE	‡‡	14	+1	14	8	2.59	–
Greenwich Res	♣□	15	—	22¼	5	12.3	–
Hemlo Gold CS		£8¾	-⅛	£8½	£3½	653.2	1.5
Ivernia West IE	‡‡□	39	—	57	21	18.0	–
Kells Mints IE	‡‡□	14	—	14½	6	0.34	–
Kenmare	♣□	8¼	-¼	13½	5	8.76	–
Melinga Res		7	—	25½	7	0.77	–
Navan Res IE	♣	124	+6	124	25	24.7	–
5pc Ln Notes		112	+8	112	25	29.2	–
Oryx Gold		45	—	78½	27	–	–
‡‡Ovoca Res IE		27	+5½	29½	3½	1.88	–
RTZ	♣N□	741	+7	740	607	7,884	3.2

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. *Dividends and Dividend covers are published on Monday.*

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ *Interim since reduced, passed or deferred*
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ¥ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
a Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other *official estimates for 1993.*
K Yield based on prospectus or other *official estimates for 1992-93*
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield in data.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring 081 770 *0770 (open 24 hours including weekends) or fax* 081 770 3822, quoting the code FT9447. (If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822) *Reports will be sent the next working day, subject to availability.* If faxing please remember to state the weekly changing FT code *above and also your post code.*

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on *FT Cityline.*

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✦) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Sun Life Trust Mngmt Ltd (1200)H

101, Cannon St, London EC4N 5AD

	Init Chge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Master Portfolio	5¼	47.28	47.29	50.58	[illegible]	[illegible]
Amer Growth Acc	5¼	21.04	21.04	22.58	[illegible]	[illegible]
Cap Protector Acc	5¼	51.21	51.80	55.52	[illegible]	[illegible]
Cap Protector Inc	5¼	42.49	43.02	45.61	[illegible]	[illegible]
Euro Growth Acc	5¼	83.27	83.27	88.78	[illegible]	[illegible]
Far East Grth Acc	5¼	147.22	147.22	157.47	[illegible]	[illegible]
Japan Growth Acc	5¼	102.55	102.55	109.63	[illegible]	[illegible]
UK Growth Acc	5¼	76.88	76.88	80.94	[illegible]	[illegible]
UK Income Acc	5¼	77.17	77.17	82.83	+0.72	[illegible]
UK Income Inc	5¼	54.17	54.17	57.94	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PDFM Unit Managers Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Small Co's Dec 7	879.20	909.50	—	2.48
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Rothschild Asset Management

J. Rothschild Fund Managers Ltd.

Barclays Life Assur. Co Ltd - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Pension Funds				
Equity Pen Accum	384.8	393.7	+1.4	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Black Horse Life Assurance

Mountbatten Hse, Chatham, Kent. 0634 834000

Combined Life Assurance Co

15 Wheatfield Way, Kingston upon Thames, Surrey KT1 2PA

Commercial Union

St Helen's, 1 Undershaft, London EC3

INSURANCES

OTHER UK UNIT TRUSTS

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

J Rothschild Assurance PLC – Contd.

Pension Funds

	Bid Price	Offer Price	+ or -	Yield Gross
JRA/M&G Managed cap	140.3	147.7	+0.30	–
JRA/M&G Managed acc	169.4	167.3	+0.30	–
JRA/Scottish Amicable Mngd cap	127.6	134.4	-0.30	–
JRA/Scottish Amicable Mngd acc	136.0	143.2	-0.30	–
JRA/St James's Pl Mngd cap	163.4	172.0	+0.10	–
JRA/St James's Pl Mngd Acc	173.9	183.1	+0.10	–
Deposit cap	101.9	107.3	–	–
Deposit acc	108.4	114.2	–	–
Far East cap	163.4	172.0	+0.70	–
Far East acc	173.9	183.1	+0.70	–
Gilts cap	123.8	130.2	+0.30	–
Gilts acc	131.6	138.6	+0.10	–
Greater European cap	140.2	147.6	+1.00	–
Greater European acc	149.3	157.2	+1.10	–
North American cap	150.2	158.2	+1.60	–
North American acc	160.0	168.5	+1.70	–
UK Equity cap	128.4	[illegible]	-0.60	–
UK Equity acc	136.8	144.0	-0.60	–

Royal Heritage Life Assurance Ltd

Scottish Provident Group – Contd.

Sun Life Unit Assurance Ltd – Contd.

Swiss Life (UK) PLC

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Group

Scottish Widows' Group

Sun Alliance Group

Sun Life Unit Assurance Ltd

Target Life Assurance Co Ltd

Tunbridge Wells Equitable

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

[redacted] هكذا من الأصل

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JERSEY (REGULATED)(**)

Barclays Intl Funds

Barclays Inv Funds (Luxembourg)

Kleinwort Benson Japanese Warrant Fund

Kleinwort Benson Select Fund (a)

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse

Nomura Rosenberg Alpha Fund Mark II

Norit Currency Fund

Pacific Basin Growth Fund

Rosenberg Global Mngt Co SA (u)

Citizens Investment Trust Mgt Co Ltd

Columbus Asset Management Ltd

Connought Investments Ltd (Hong Kong)

Craig Drill Capital Ltd

The India Magnum Fund NV

Indian Opportunities Fund Ltd

Indosuez Asset Management Asia Ltd

Pakistan Fund

Pequot International Fund Inc

Philippine Income Fund Inc

Portuguese Investment Fund Ltd

Putnam Embassy Funds Ltd

Putnam International Advisers Ltd

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

FFr back in narrow band

The French franc breached its old floor in the European exchange-rate mechanism to trade in its former narrow band against the D-Mark for the first time since August 2, *writes Conner Middelmann.*

After opening around FFr3.440 against the D-Mark, the franc burst through its former ERM floor at FFr3.4305. After reaching an intra-day high of FFr3.423, it closed at FFr3.424, up from FFr3.440 at Tuesday's close.

Before the virtual suspension of the ERM at the end of July, most currencies in the system were allowed to trade within 2.25 per cent of their central parities, with the D-mark's fluctuation ceiling at FFr3.4305. Since August 2, most currencies can fluctuate by up to 15 per cent on each side of their central rates.

The franc was boosted by hopes that the ongoing Gatt world trade talks would be concluded before the December 15 deadline. It was further underpinned by international buying of French stocks and bonds and switching out of German into French assets.

While the long end of the French yield curve rallied sharply, gains at the short end were limited by the belief that the Bank of France is unlikely to start easing rates more aggressively in the near term, despite the currency's recent appreciation. That was reflected by the French March three-month interest rate (Pibor) future, which rose only 0.04 point to 93.51 on moderate volume.

The franc is widely expected to hold on to its gains and is *set to test technical resistance* at FFr3.4230 and FFr3.4180. However, today's publication of Bank of France foreign currency reserve figures for the week *ending December 2* may put a temporary halt to the franc's recent ascent.

"If there's no indication that the Bank of France has taken the opportunity to rebuild its reserves (amid recent currency strength) that could damp sentiment a bit" by raising prospects for more central-bank franc sales, said Mr Adrian Cunningham, senior currency economist at UBS.

The franc also remains vulnerable to any last-minute complications in the Gatt negotiations.

● The D-Mark weakened against most European currencies as international investors shifted some funds into neighbouring markets.

Throughout this year, the D-mark has attracted huge foreign inflows on the back of Germany's safe-haven status and the Bundesbank's reluctance to cut interest rates rapidly. But "German rates are coming down now and a lot of the capital that went into Germany is starting to come out," noted Mr Robin Hubbard, chief economist at Paribas Capital Markets.

Also damping the German currency was continued softness in the German call money rate, which slipped to around 6.07 per cent from about 6.15 per cent on Tuesday after the Bundesbank added a net DM2bn at its allocation of 14-day securities repurchase agreements at a fixed rate of 6 per cent.

Although Italy, Spain and Portugal were closed for national holidays, their currencies continued to strengthen against the D-Mark. The Italian lire rose to L979.2 to the D-Mark, from L983.1 late on Tuesday. The Spanish peseta climbed to Pta81.76, from Pta81.93. The Portuguese escudo edged up to Es101.7, from Es101.9 on Tuesday.

Among the ERM's core currencies, the Danish krone and Belgian franc also appreciated further after Tuesday's rate cuts in both countries. The krone rose to DKr3.915 against the D-Mark, from DKr3.933 at Tuesday's close. The Belgian franc firmed to BFr20.82, from BFr20.83 on Tuesday.

● Sterling firmed slightly against the D-Mark, buoyed partly by the successful auction of £3bn 6.75 per cent gilts. The pound hit a high of DM2.5560, but edged lower to end at DM2.5500, up from DM2.5450 on Tuesday.

In the money market, the *Bank of England* forecast an initial shortage of £1.95bn which was later revised to £1.9bn. In the course of its market operations, it purchased £1.231bn of bills in the early operation, followed by £355m and £290m in later rounds.

● The US dollar was the only major currency to ease against the D-Mark, ending at DM1.7050, down from DM1.7065 at Tuesday's close. In after-hours London *trading* it slipped further to DM1.7020.

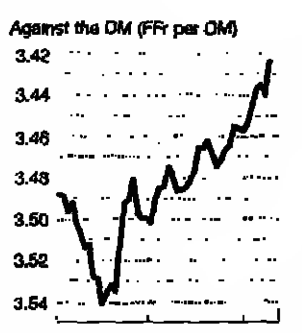
Despite recent economic releases indicating a US recovery, inflationary pressures remain subdued and the recent fall in oil prices is reinforcing the low-inflation outlook, easing the likelihood of imminent Fed tightening and keeping a lid on the currency.

"The idea of US tightening *has been pushed on the back* burner for now," supporting US long bond yields and pressuring the currency, said Mr Michael Burke, economist at Citibank in London. Traders will be closely eyeing producer price data on Thursday and consumer prices on Friday for further clues on the US inflation outlook.

Elsewhere, the dollar firmed against the Japanese yen on reports that US Federal Reserve governor Wayne Angell said at a private briefing in London that Japan should target a rate of Y120 to the dollar to stimulate domestic demand. The dollar hit a high of Y109.15, though it slipped back in the course of the day to close at Y108.60, up from Y107.60 on Tuesday.

French franc

Against the DM (FFr per DM)



Source: Datastream

■ Pound in New York

[illegible]

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

	+0.1	705 - 715	27.15	27.00	-	-	-	-	-	-
	-	500 - 540	3.7540	3.7500	3.758	-1.9	3.7685	-1.8	3.791	-1.0
	-	970 - 980	1.5980	1.5970	1.5965	0.8	1.5962	0.3	1.594	0.2
	-0.002	600 - 650	3.3890	3.3600	3.3785	-5.7	3.3943	-3.8	3.5265	-4.9
	+0.015	750 - 850	4.3975	4.2900	4.412	-8.8	4.474	-8.8	-	-
	-0.3	910 - 920	809.20	809.10	812.15	-4.4	815.65	-3.2	834.15	-3.1
	-	690 - 700	27.00	26.90	27.015	-2.9	27.165	-3.0	-	-
	-	540 - 550	25.50	25.40	25.465	-0.7	25.495	-0.7	25.76	-1.2

...in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market... Morgan Guaranty Changes shown for Dec 7. Base average 1980/82=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

■ STERLING FUTURES (IMM) £62,500 per £

EMS EUROPEAN CURRENCY UNIT RATES

Dec 8	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.18180	-0.00105	-1.59	3.87	-
Ireland	0.808628	0.799781	-0.000549	-1.09	3.36	7
Germany	1.94964	1.93002	+0.00028	-1.01	3.26	-
Belgium	40.2123	40.2992	+0.0461	0.22	2.00	-2
France	6.53883	6.62901	-0.00831	1.38	0.83	-12
Denmark	7.43679	7.58101	-0.01606	1.94	0.27	-13
Portugal	192.854	196.620	+0.074	1.96	0.26	-13
Spain	154.250	157.669	+0.07	2.22	0.00	-15
NON ERM MEMBERS						
Greece	264.513	276.399	-0.557	4.49	-2.18	-
Italy	1793.19	1892.14	-2.63	5.52	-3.13	-
UK	0.786749	0.757961	+0.002088	-3.66	6.10	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
1.400	8.09	8.87	8.92	0.07	0.04	0.35
1.425	8.64	6.60	6.86	0.07	0.20	0.73
1.450	4.15	4.53	5.04	0.07	0.55	1.34
1.475	1.80	2.78	3.46	0.13	1.27	2.24
1.500	0.23	1.52	2.29	1.03	2.47	3.45
1.525	0.01	0.74	1.42	3.17	4.12	5.07

Previous day's vol., Calls 16,197 Puts 10,636. Prev. day's open int., Calls 676,162 Puts 596,120

WORLD INTEREST RATES

MONEY RATES

[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

* LIFFE futures traded on APT

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

EURO CURRENCY INTEREST RATES

[illegible]

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

■ THREE MONTH EURODOLLAR (LIFFE) $1m points of 100%

UK INTEREST RATES

LONDON MONEY RATES

Dec 8	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5 5/8 - 3 1/2	5 5/8 - 5 3/8	5 7/16 - 5 5/16	5 1/4 - 5 1/8	5 1/8 - 5	5 1/8 - 5
Sterling CDs	-	-	5 17/32 - 5 9/32	5 3/16 - 5 1/8	5 1/16 - 5	5 - 4 15/16
Treasury Bills	-	-	5 1/8 - 5 1/16	5 - 4 15/16	-	-
Bank Bills	-	-	5 9/32 - 5 1/8	5 1/16 - 5	5 - 4 15/16	-
Local authority deps.	5 3/16 - 5 1/16	5 7/16 - 5 5/16	5 1/8 - 5 1/4	5 3/16 - 5 1/16	5 3/16 - 5 1/16	5 1/8 - 5
Discount market deps.	5 1/2 - 4	5 5/16 - 5 7/16	-	-	-	-

UK clearing bank base lending rate 5 1/2 per cent from November 23, 1993

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1 1/4	4 1/4	4	3 3/4	3 3/4

Certs of Tax dep. under £100,000 is 2 1/4pc. Deposits withdrawn for cash 1pc.
Ave. tender rate of discount 4.9636pc. ECGD fixed rate Stg. Export Finance. Make up day November 30, 1993. Agreed rate for period Dec 26, 1993 to Jan 25, 1993, Schemes II & III 6.90pc. Reference rate for period Oct 30, 1993 to Nov 30, 1993, Schemes IV & V 5.518pc. Finance House Base Rate 6pc from Dec 1, 1993

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.68	94.69	+0.01	94.70	94.68	7640	75485
Mar	94.93	94.96	+0.03	94.97	94.93	13793	105791
Jun	95.11	95.16	+0.05	95.17	95.10	7669	94747
Sep	95.14	95.21	+0.06	95.22	95.14	4910	51682

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec.	Mar	Jun
9450	0.20	0.50	0.71	0.61	0.04	0.05
9475	0.03	0.30	0.50	0.09	0.09	0.09
9500	0	0.14	0.32	0.31	0.18	0.16

Est. vol. total, Calls 2457 Puts 7008. Previous day's open int., Calls 177459 Puts 164075

BASE LENDING RATES

	%		%		%
Adam & Company	5.5	Duncan Lawrie	5.5	*Roxburghe Bank Ltd is no longer authorised as a banking institution.	8
Allied Trust Bank	5.5	Exeter Bank Limited	7	Royal Bk of Scotland	5.5
AIB Bank	5.5	Financial & Gen Bank	8	●Smith & Williamson Secs.	5.5
●Henry Ansbacher	5.5	●Robert Fleming & Co	5.5	Standard Chartered	5.5
Bank of Baroda	5.5	Girobank	5.5	TSB	5.5
Banco Bilbao Vizcaya	5.5	●Guinness Mahon	5.5	●United Bk of Kuwait	5.5
Bank of Cyprus	5.5	Habib Bank AG Zurich	5.5	Unity Trust Bank Plc	5.5
Bank of Ireland	5.5	●Hambros Bank	5.5	Western Trust	5.5
Bank of India	5.5	Heritable & Gen Inv Bk.	5.5	Whiteaway Laidlaw	5.5
Bank of Scotland	5.5	●Hill Samuel	5.5	Wimbledon & Sth West.	7
Barclays Bank	5.5	C. Hoare & Co	5.5	Yorkshire Bank	5.5
Brit Bk of Mid East	5.5	Hongkong & Shanghai.	5.5		
●Brown Shipley	5.5	Julian Hodge Bank	5.5	● Members of British Merchant Banking & Securities Houses Association	
CL Bank Nederland	5.5	●Leopold Joseph & Sons	5.5	* In administration	
Citibank NA	5.5	Lloyds Bank	5.5		
City Merchants Bank	5.5	Meghraj Bank Ltd	5.5		
Clydesdale Bank	5.5	Midland Bank	5.5		
The Co-operative Bank	5.5	* Mount Banking	8		
Coutts & Co	5.5	NatWestminster	5.5		
Credit Lyonnais	5.5	●Rea Brothers	5.5		
Cyprus Popular Bank	5.5				

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 7 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Dec 8 / Frs.)

[illegible]

DENMARK (Dec 8 / Kr)

[illegible]

FINLAND (Dec 8 / Mks)

[illegible]

FRANCE (Dec 8 / Frs.)

[illegible]

GERMANY (Dec 8 / Dm.)

[illegible]

ITALY (Dec 7 / Lire)

[illegible]

NETHERLANDS (Dec 8 / Fls.)

[illegible]

NORWAY (Dec 8 / Kroner)

[illegible]

SPAIN (Dec 7 / Pts.)

[illegible]

SWEDEN (Dec 8 / Kronor)

[illegible]

SWITZERLAND (Dec 8 / Frs.)

[illegible]

PACIFIC

JAPAN (Dec 8 / Yen)

[illegible]

AUSTRALIA (Dec 8 / Aus$)

[illegible]

HONG KONG (Dec 8 / H.K.$)

[illegible]

MALAYSIA (Dec 8 / MYR)

[illegible]

SINGAPORE (Dec 8 / S$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Dec 8 / Can $)

4 pm close

[illegible]

MONTREAL (Dec 8 / Can $)

4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Dec 8 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1993. ‖ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, December 9, 199

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	8.0m	296	-8	Mitsubishi Heavy	2.5m	815	-21
Matsushita	4.3m	1,410	-20	Sumitomo Bank	2.5m	1,900	-80
Keisei Elec Rlwy	4.2m	788	-13	Sanwa Bank	2.2m	2,020	-40
Hitachi	3.8m	769	+4	NKK Corp	2.2m	228	-1
Kawasaki Steel	3.8m	299	-7	Toyota Motor	2.1m	1,700	-50

INDICES

	Dec 8	Dec 7	Dec 6	1993 High		1993 Low	
Argentina							
General (29/12/77)	(u)	17899.1	17798.7	18357.80	22/10	12167.80	8/3
Australia							
All Ordinaries(1/1/80)	2096.0	2073.9	2063.7	2132.40	1/11	1495.00	13/1
All Mining(1/1/80)	931.5	918.5	900.4	931.50	8/12	584.70	13/1
Austria							
Credit Aktien(30/12/84)	(c)	419.48	420.75	424.58	2/11	300.28	14/1
Traded Index(2/1/91)	(c)	1086.72	1091.72	1094.43	2/11	712.08	15/1
Belgium							
BEL20 (1/1/91)	1433.77	1430.45	1438.42	1438.42	6/12	1125.48	4/1
Brazil							
Bovespa (29/12/83)	(u)	29296.0	29615.0	97300.00	26/8	714.72	4/1
Canada							
Metals Minls♦(1975)	(u)	3434.12	3298.70	3434.12	7/12	2743.31	21/1
Composite♦ (1975)	(u)	4265.50	4236.00	4302.80	12/11	3273.80	5/1
Portfolio§§ (4/1/83)	(u)	2039.50	2021.66	2038.50	7/12	1720.97	21/1
Chile							
IPGA Gen (31/12/80)	(u)	3378.5	3373.4	3392.87	29/11	2812.58	10/5
Denmark							
CopenhagenSE(3/1/83)	350.24	349.70	348.74	365.14	4/11	261.90	4/1
Finland							
HEX General(28/12/90)	1567.5	1559.7	(c)	1607.70	3/11	843.10	22/1
France							
CAC General(31/12/81)	(u)	607.52	608.75	609.73	26/10	471.24	13/1
CAC 40(31/12/87)	2205.31	2176.12	2186.74	2231.88	22/10	1772.21	29/3
Germany							
FAZ Aktien(31/12/58)	823.23	815.07	817.99	823.23	8/12	598.92	14/1
Commerzbank(1/12/53)	2357.50	2331.3	2340.6	2357.50	8/12	1694.30	14/1
DAX (30/12/87)	2148.13	2115.48	2118.80	2148.13	8/12	1516.50	13/1
Greece							
Athens SE(31/12/80)	911.54	909.16	913.15	944.44	13/8	667.72	5/1
Hong Kong							
Hang Seng(31/7/64)	9750.23	9736.57	9609.69	9730.23	8/12	5437.80	4/1
India							
BSE Sens.(1979)	3310.2	3223.9	3149.8	3310.20	8/12	2100.67	23/4
Indonesia							
Jakarta Comp.(10/8/82)	523.32	523.41	523.54	538.46	22/11	273.31	5/1
Ireland							
ISEQ Overall(4/1/88)	1607.42	1311.74	1616.03	1649.27	3/11	1181.18	11/1
Italy							
Banca Comm Ital (1972)	(c)	573.46	564.15	632.88	30/8	448.33	6/1
MIB General (4/1/93)	(c)	1260.0	1240.0	1390.00	30/8	992.00	11/1
Japan							
Nikkei 225 (16/5/49)	16507.95	16603.49	16840.38	21148.11	13/9	16078.71	29/11
Nikkei 300 (1/10/82)	259.21	264.25	262.39	308.84	10/11	249.64	29/11
Topix (4/1/68)	1396.54	1420.61	1413.86	1698.67	3/9	1250.06	25/1
2nd Section (4/1/68)	1833.04	1853.85	1870.62	2364.87	7/9	1651.72	26/1
Malaysia							
KLSE Comp.(4/4/86)	1080.79	1063.25	1041.11	1083.25	7/12	314.28	13/1

	Dec 8	Dec 7	Dec 5	1993 High		1993 Low	
Mexico							
IPC (Nov 1978)	(u)	2364.00	2366.14	2366.14	7/12	1504.15	25/2
Netherland							
CBS TtlRtnGen(End 83)	420.8	417.8	417.0	420.80	8/12	295.70	4/1
CBS All Shr (End 83)	272.7	270.8	270.3	272.70	8/12	186.60	13/1
New Zealand							
Cap. 40 (1/7/86)	2097.38	2087.57	2094.79	2203.89	2/11	1486.37	21/1
Norway							
Oslo SE(Ind)(2/1/83)	985.77	978.80	985.79	1036.73	18/11	668.93	27/1
Philippines							
Manila Comp (2/1/85)	2518.92	2509.00	(c)	2518.92	8/12	1270.88	4/1
Portugal							
BTA (1977)	(c)	2553.4	2535.8	2580.00	9/9	1608.20	14/1
Singapore							
SES All-S'pore(2/4/75)	589.51	589.67	565.50	589.67	7/12	394.10	13/1
South Africa							
JSE Gold (28/9/78)	1990.0♥	1902.0	1923.0	2088.00	30/7	775.00	5/1
JSE Indl. (28/9/78)	5025.0♥	4970.0	4945.0	5025.00	8/12	4333.00	19/4
South Korea							
KoreaCompExt(4/1/80)**	838.71	823.17	828.48	846.47	20/11	605.93	6/1
Spain							
Madrid SE (30/12/85)	(c)	304.92	(c)	310.28	22/10	218.80	4/1
Sweden							
AffarsvardsGen (1/2/37)	1359.2	1358.8	1338.3	1435.10	4/11	878.10	28/1
Switzerland							
Swiss Bk Ind (31/12/58)	1237.36	1233.48	1233.10	1237.36	8/12	904.80	11/1
SBC General (1/4/87)	970.62	967.89	968.87	970.82	8/12	678.70	11/1
Taiwan							
WeightedPr.(30/6/66)**	4692.11	4683.60	4708.17	5013.28	7/4	3098.43	9/1
Thailand							
Bangkok SET (30/4/75)	1436.92	1442.56	(c)	1442.59	7/12	818.84	1/6
Turkey							
Istanbul Cmp.(Jan 1986)	17935.6	17362.0	18026.1	18977.10	30/11	3955.53	1/1
WORLD							
MS Capital Int (1/1/70)§	587.1*	589.2	587.2*	607.10	15/10	488.80	13/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1418.22	1399.50	1397.37	1418.22	8/12	1083.02	13/1
Euro Top-100 (26/6/90)	1186.25	1177.42	1176.41	1186.25	8/12	882.73	13/1
JCapeDrgns (31/12/88)	(u)	322.69	318.25	322.89	8/12	186.92	4/1
Barings Emerg.(7/1/92)	150.65	151.23	148.06	151.23	7/12	98.81	4/2

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	SettPrice	Change	High	Low	Est. vol.	Open int.
Dec	2191.9	2220.0	+33.0	2245.0	2191.9	27,499	56,305
Jan	2203.5	2231.5	+33.0	2233.5	2203.5	2,183	2,946
Feb	2215.5	2243.5	+33.0	2215.5	2215.5	1	150
Mar	2225.0	2255.0	+34.5	2253.0	2225.0	8,822	8,742

Open interest figures for previous day.

** Sat Nov 27. Taiwan Weighted Price; Korea Comp Ex. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7, JSE 26 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ♥ Subject to official recalculation.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

US INDICES

Dow Jones	Dec 7	Dec 6	Dec 3	1993 High	1993 Low	Since compilation High	Since compilation Low
Industrials	3718.88	3710.21	3704.07	3718.88 (7/12)	3241.95 (20/1)	3718.88 (7/12/93)	41.22 (2/7/32)
Home Bonds	110.84	110.81	108.50	110.84 (7/12)	103.49 (11/1)	110.84 (7/12/93)	54.99 (1/10/81)
Transport	1756.70	1756.35	1764.04	1770.87 (2/12)	1453.84 (4/1)	1770.87 (2/12/93)	12.32 (8/7/32)
Utilities	227.32	225.81	223.90	256.46 (31/8)	217.14 (8/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3748.82 (3738.44) Low 3689.26 (3687.30) (Theoretical♦)
Day's high 3723.93 (3721.30) Low 3709.36 (3702.11) (Actual♦)

Standard and Poors	Dec 7	Dec 6	Dec 3	1993 High	1993 Low	Since compilation High	Since compilation Low
Composite ‡	466.76	466.43	464.89	469.50 (15/10)	429.05 (8/1)	469.50 (15/10/93)	4.40 (1/6/32)
Industrials♥	538.91	539.25	537.41	540.25 (16/11)	496.48 (26/4)	540.25 (16/11/93)	3.62 (21/6/32)
Financials	44.54	44.60	44.12	48.40 (28/9)	39.89 (8/1)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	257.96	257.65	256.74	260.48 (15/10)	236.21 (8/1)	260.48 (15/10/93)	4.46 (25/4/42)
Amex Mkt Val	476.40	465.82	465.32	484.28 (2/11)	395.84 (8/1)	484.28 (2/11/93)	29.31 (9/12/72)
NASDAQ Cmp	769.35	771.06	772.22	787.42 (15/10)	645.87 (26/4)	787.42 (15/10/93)	54.87 (31/10/72)

■ RATIOS

	Dec 3	Nov 26	Nov 19	Year ago
Dow Jones Ind. Div. Yield	2.70	2.71	2.71	3.13
	Dec 1	Nov 24	Nov 17	Year ago
S & P Ind. Div. yield	2.41	2.40	2.38	2.85
S & P Ind. P/E ratio	27.08	27.14	28.88	27.71

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	466.55	465.65	-1.00	467.10	465.65	42,060	144,609
Mar	467.75	467.00	-0.75	467.75	467.00	14,492	59,119
Jun	-	-	-	-	-	-	-
Sep	-	-	-	-	-	-	-

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Hanson	11,894,700	19	
RJR Nabisco	4,371,100	6⅝	+⅛
Telefonos	3,421,100	59⅝	-⅜
Boeing	3,393,700	40⅝	+2
Limited	3,318,100	17¾	-⅛
WMX Tech	3,122,300	27½	+1⅝
Pacifcl Corp	2,970,900	26⅞	+⅛
Westinghouse	2,728,900	14½	+⅛
Philip Morris	2,668,200	56	+⅜
Merck	2,253,800	34⅞	

■ TRADING ACTIVITY

● Volume (million)

	Dec 7	Dec 6	Dec 3
New York SE	270.981	287.414	268.339
Amex	15.780	16.238	16.231
NASDAQ	298.838	292.660	327.870
NYSE			
Issues Traded	2,688	2,693	2,681
Rises	1,049	1,219	1,205
Falls	986	848	817
Unchanged	653	626	659
New Highs	82	102	78
New Lows	27	27	28

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close December 8

1993 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	11½	AAR	0.48	3.4	706	164	14¼	13⅞	14⅛	+¼
20⅞	12¾	A L Labs A	0.18	1.4	30	1482	13¾	13	13¾	+¼
87¼	54⅝	AMP	1.80	2.6	21	1434	81⅞	80⅞	67	-⅛
72⅞	55½	AMR			53	4615	68⅝	21⅛	68¼	+⅞
3⅞	1¾	ARX			14	38	3⅝	3½	3½	-⅛
51½	29⅞	ASA	2.00	4.0	32	1457	49¾	48¾	49⅝	+2¼
30¾	22⅝	AbbtL	0.68	2.3	16	9401	29⅞	29½	29¾	
12⅞	9¼	Abitibi Pr	0.50	4.4	1	30	11¼	11¾	11¾	
15⅞	8¼	Acptncsin			20	210	12⅝	12⅛	12¼	
35	20½	ACE Ltd	0.40	1.3	6	313	30¼	29¾	30¼	+½
12¼	10¾	ACM Gvt In	1.08	9.2		1650	12⅛	11⅞	11⅞	-⅛
10⅛	9⅞	ACM GvOpp x	1.58	16.6		91	9⅝	9½	9⅝	
10⅛	8¾	ACM Gvt Sp	0.96	9.5		426	u10¼	10	10⅛	+⅛
12	10½	ACM Gvt Sc	1.09	9.2		646	11⅞	11¾	11⅞	
12¼	9⅝	ACM Man	2.56	23.6		607	11	10⅞	10⅞	
9⅞	8⅝	ACM Managd	0.72	7.9		200	9⅛	9	9⅛	
12⅝	7¾	AcmeCw	0.44	4.6	12	21	9½	9⅜	9½	
11⅞	6⅞	Acme Elect			40	100	9⅛	8⅞	8⅞	-⅛
27⅞	18⅞	Acordia	0.44	1.9	13	48	23½	23¼	23½	-⅛
19	10⅞	Acuson			57	308	12⅞	12⅝	12⅝	-⅛
21¾	17¾	Adams Expr	0.52	2.9	0	133	18¼	18⅛	18⅛	-⅛
66¼	45½	Ad Micro	3.00	6.3		40	47⅞	47⅛	47½	
32¾	17½	AdvMic	3.00	16.0	0	4139	18⅝	17⅞	18⅛	
8⅛	5½	Advest Grp	0.16	2.4	11	48	6⅞	6⅝	6⅝	-⅛
24¾	14¼	Advo Inc	0.08	0.5	79	160	16¾	16⅝	16¾	
53⅝	41⅛	Aegon ADR	1.23	2.3	11	71	u54¼	53⅞	53⅞	+½
68¼	43⅞	AetnaL	2.76	4.4	20	2250	61⅞	61⅞	62⅛	+⅜
34	24¾	Aflac	0.40	1.4	13	2265	29½	28⅝	28¾	-⅞
22⅛	10¾	Ahmnsn	0.88	4.6	0	441	19⅛	19	19⅛	-⅛
7¾	3⅞	Aileen Inc			5	238	4⅛	4	4	-⅜
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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4 pm close December 8

NYSE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng. Prev. Close
Continued from previous page										
28	16¾	Safeg'd Sc			12	25	25⅞	25½	25⅞	
24⅛	13½	StyAll	0.36	2.4	22	868	15	14⅝	14⅞	+⅛
22¾	10⅞	Safeway			22	929	18¾	18½	18⅝	-⅛
5¼	2	SafewayWDG				38	4⅛	4⅛	4⅛	
55	37½	StJoePaper	0.20	0.4	278	53	53¼	52¾	53	+¼
37⅞	30	StJudeLP	1.76	5.9	12	16	30	490	30	-⅛
98	75	StPaul	2.80	3.1	14	379	91⅞	91	91¼	-⅝
11⅞	6⅝	Salant Crp			8	89	7⅛	6¾	6¾	-⅛
75¼	38⅞	SallieMae	1.40	3.2	9	1448	44¼	44	44½	
14⅝	12⅞	Salomon Br	0.55	4.3		851	13	12¾	12⅞	+⅛
51⅞	34	Salomon	0.64	1.4	11	570	45½	40	45¼	-⅛
27¾	23¼	SDgGE	1.48	6.0	13	481	24¾	24½	24¾	-⅛
5	3½	SantaFeEDs	0.40	8.2	48	10	4⅞	4⅞	4⅞	
11⅞	8⅛	SantaFeEPtn	1.40	16.2	287	3865	8¾	8⅝	8⅝	+⅛
40¾	35¾	SantaFePac	2.80	7.2	16	23	38¾	38½	38¾	+¼
21⅞	12¾	SanFeP	0.18	0.5	8	3403	21⅝	21⅜	21⅜	+⅛
31⅛	21	SaraLee	0.64	2.4	18	4306	27⅛	26¾	27	-⅛
52¼	40½	Scana Corp	2.74	5.5	13	140	49⅝	49¼	49½	-⅛
28¾	19¾	Scecorp	1.42	7.0	13	5667	20½	20⅛	20⅜	-⅛
38⅞	23⅞	SchererRP			28	2951	37½	36¼	37½	+1¼
71	51¼	SchrPl	1.80	2.8	15	5947	65⅝	65¼	65¼	-1
59⅞	55⅞	Schlmb	1.20	2.1	23	5229	58½	58	58⅜	-⅛
38⅞	16½	SchwabC	0.20	0.6	18	1398	34⅛	33½	34¼	+⅝
7¼	6⅛	Schwitzer			65	778	6⅛	6	6	-⅛
38⅞	17¼	SciAtl	0.12	0.4	50	1285	33¾	32¼	32½	+⅞
14⅞	9⅛	Scimate	0.10	0.7	13	39	14⅛	14	14	-⅛
41	31	ScottP	0.80	2.0	24	4106	39½	39¾	39¼	+⅛
25⅞	14¼	ScuddrNAsF	0.21	0.8		61	24½	24⅛	24⅜	-⅛
11⅛	7½	ScuddrNEuF	0.16	1.5		213	10⅝	10¼	10⅝	+¼
21½	16¼	SeaCnB	0.70	3.7	0	8	18¾	18½	18¾	
17	15	SeaC7.4625	1.46	9.4		32	15¾	15¼	15½	-½
36⅛	24½	Seagrm	0.56	2.1	34	1103	27	26⅞	27	
32⅞	15	Seagull En			41	3131	23	22⅝	23	
30⅞	21	Sealed Air			25	211	29⅛	29	29½	-⅛
[illegible]										

AMEX COMPOSITE PRICES

4 pm close December 8

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close December 8

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMERICA

Flat mood in equities leaves Dow drifting

Wall Street

Wall Street moved slightly higher yesterday morning in a session that found little inspiration in the previous day's record close, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 4.19 higher at 3,723.07, while the more broadly based Standard & Poor's 500 was up 0.90 at 465.86. Secondary markets were weaker, with the American SE composite down 0.13 at 467.27 and the Nasdaq composite 2.48 lower at 766.87. NYSE volume was 162m at 1 pm.

Wall Street limped through the morning with little sense of direction, as investors seemed content once again to stay on the sidelines ahead of today's producer price data.

Tuesday's record closing high could not dispel the flat mood which has drifted through the market recently.

No motivation was to be found in the stagnant US Treasury market, where bonds across the maturity range treaded water in relaxed anticipation of Thursday's inflation data.

In early trading the benchmark 30-year issue was 1/32 lower at 101 1/32, amid expectations of a modest 0.2 per cent increase in last month's wholesale prices.

In the day's only new economic data, the Federal Reserve's Beige Book report, released at midday, only served to reinforce the impression of strong growth and low inflation suggested by last week's stream of statistics.

Airlines were again among the most active issues. Continental's B stock was marked down $1⅛ to $20⅞ after an offering of 7m new shares at $20 each. The carrier is to use the proceeds to increase liquidity.

UAL, the parent of United Airlines, nosed ahead $1¼ to $151¼ on reports of progress in negotiations over a move by its unions to acquire 60 per cent of the company.

With Comex gold prices on the rise, mining issues were in play. Placer Dome added $1 to $24, while American Barrick climbed $⅞ to $28. On the Amex, Pegasus Gold advanced $1⅞ to $22⅛, and Echo Bay Mines was $⅜ ahead at $13½.

Among individual issues, an announcement by Xerox that it would cut about 10 per cent of its 97,500-strong document-processing workforce sent the stock $4¼ higher to $85.

Marriott International gained $1⅞ to $26⅞ after Wertheim Schroder upgraded its rating from "neutral" to "buy".

JP Morgan, the US securities house, added $1⅞ to $72⅝ after increasing its dividend.

Venezuelan equities regained positive territory after a steep fall on Tuesday following the election of a new government at the weekend. The Merinvest composite index closed up 1 per cent at 112.85. On Sunday, the country voted in the administration of Mr Rafael Caldera, which may revise the free trade policy of former President Carlos Andrés Pérez.

Canada

Toronto continued to build upon early gains in midday trading helped by strength in base and precious metals, as that sub-index advanced 73.78, or 2.15 per cent, to 3,507.90.

The TSE-300 composite index was up 32.93 at 4,298.41 in volume of 48.75m shares worth C$560m.

SOUTH AFRICA

De Beers and Anglos led the market higher, with respective gains of R4 and R10 to R93.50 and R178, the latter at a new closing high. The overall index rose 85 to 4,391, while the golds index added 88 at 1,990 and industrials 55 at 5,025.

EUROPE

Year-end rally resumes in Frankfurt and Paris

Hopes of a successful outcome to the Gatt talks gave senior bourses the excuse to resume their year-end rally, *writes Our Markets Staff.*

FRANKFURT was lifted at the outset by the Gatt prospect, and climbed further on institutional buying. German stock market turnover rose from DM7.6bn to DM10.4bn as the DAX index closed the official session 32.67, or 1.6 per cent higher at a new all-time high of 2,148.13.

In the afternoon, dealers and investors seemed to have the bit between their teeth, and some big speculative positions were taken, some of them in large companies, as the Ibis indicated DAX put on another 17.82 to 2,165.95 for an overall gain of 1.6 per cent since the previous post-bourse close.

Big blue chips were in the frame, Siemens rising DM11.90 to DM737.40 on optimism about the transrapid electromagnetic train project, and hitting DM746 in the afternoon; Thyssen moved from DM242.50, through DM245.90 to DM251 on similar grounds.

Telecoms prospects also got excited, Veba touching DM495, up DM14.80 from the previous day's close on plans to go deeper into the industry, and Mannesmann rising DM14.40 to DM386.90 overall.

However, profit-taking hit AEG before the sale of its household appliances unit to Electrolux was confirmed, and the shares fell DM7.90 to DM178.

PARIS strengthened solidly, some analysts giving credit to the the Gatt talks. The CAC-40 index advanced 29.19 or 1.3 per cent top 2,205.31.

Turnover was good at an estimated FFr4.5bn.

The solid performance of the bond market also contributed to the day's positive outlook.

However, a different picture emerged from two new indices which were launched yesterday, the SBF 120 and the SBF 250, both of which showed slight declines on the day, the former closing at 1,494.20 and the latter at 1,429.34.

The new indices, compiled by the Société des Bourses Françaises, are computed at present only for the market's opening and closing, although the SBF 120, comprising some 60 per cent of the market's capitalisation compared to the CAC's 56 per cent, will become continuous from March 1994.

Among the day's gains, Générale des Eaux put on FFr97 to FFr2,728 after a US broker was reported to have reiterated its buy recommendation.

ZURICH returned to its record-setting ways after Tuesday's consolidation as strength in the franc prompted speculation that the Swiss National Bank would act shortly to cut the discount rate, perhaps as soon as this Friday when it maps out strategy for the next 12 months.

The SMI index rose 9.0 to an all-time high of 2,843.8, after an intraday peak of 2,854.7.

Registered shares in Sandoz, a recent laggard, rose SFr85 to SFr3,935 for a cumulative three day rise of 4.7 per cent. The shares were supported by a warrant issue and hopes of higher sales in Japan. News that Sandoz had sold a subsidiary of its chemicals division was welcomed by analysts as evidence that the group planned to concentrate on the higher margin biological side of its business.

A SFr24, or 3.1 per cent jump in Swissair to SFr794 was attributed to its latest traffic figures. SMH shed SFr16 to SFr1,036 after a bank noted that sales of Swiss plastic watches was slowing.

AMSTERDAM built solidly on its early gains, although analysts remained largely mystified by rises in certain stocks, including Heineken, up Fl 4.20 at Fl 212.10.

The CBS Tendency index rose 1.0 to 140.5 in turnover estimated at Fl 1.4bn.

Other underperformers in the market also put on a good showing, with DSM rising Fl 4.10 to Fl 106.40 and Akzo Fl 1.30 to Fl 184.90.

STOCKHOLM was mixed with Ericsson B shares SKr8 lower at SKr356 as US investors became sellers of the stock for the second time in recent weeks.

The Affärsvärlden index picked up 2.4 to 1,359.2. Volvo's B added SKr14 to SKr475 on renewed foreign demand while the Trelleborg firmed SKr2.50 to SKr73, attracting interest on rising metals prices.

BRUSSELS saw a late burst of Bel-20 basket-buying take equities to a slightly higher finish, the Bel-20 closing 3.32 higher at 1,433.77, with turnover a solid BFr2.2bn.

ISTANBUL picked up 3.2 per cent as bargain hunters returned after Tuesday's 3.6 per cent fall. The composite index added 533.6 to 17,935.6.

Written and edited by William Cochrane, John Pitt and Michael Morgan.

FT-SE Actuaries Share Indices

Dec 8	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1409.81	1411.21	1412.34	1412.25	1412.15	1414.25	1415.72	1416.22
FT-SE Eurotrack 200	1474.44	1477.35	1478.98	1480.57	1480.63	1481.81	1482.75	1483.16
	Dec. 7	Dec. 6	Dec. 3	Dec. 2	Dec. 1			
FT-SE Eurotrack 100	1392.50	1387.27	1387.12	1374.16	1365.54			
FT-SE Eurotrack 200	1457.48	1462.43	1464.16	1455.67	1452.41			

Base value 1000 (26/10/90); High/day: 100 - 1416.84; 200 - 1484.01 Low/day: 100 - 1409.81 200 - 1474.10

ASIA PACIFIC

Nikkei falls 2.3% as political, economic worries grow

Tokyo

Increasing worries over the political and economic outlook left share prices substantially lowar on the day. Bnt thay closed well above their worst after comments by Mr Morihiro Hosokawa, the Japanese prime minister, indicating concern over the recent drop in share prices, writes Emiko Terazono in Tokyo.

The Nikkei 225-issue average fell by 2.3 per cent after fluctuating in technical trading, finishing 395.54 down at 16,507.95, and the Topix index of all first section stocks weakened 24.07, or 1.7 per cent, to 1,396.54.

The Nikkei looked steady at the opening, registering the day's best level of 16,892.59. It plunged later on arhitraga unwinding ahead of tomorrow's settlements of December futures and options contracts, hitting a low of 16,216.82.

Index-linked huying towards the end of the session, prompted hy rumours of an imminent discount rate cut and Mr Hosokawa's comment that Japan must take every possihle step to help stock prices, lifted equities, helping the Nikkei to recoup some of its loss; and in London, later, the ISE/Nikkei 50 index rose 8.80 to 1,145.79.

Volume totalled 270m shares, against 217m. Declines led rises by 831 to 190, with 137 issues remaining unchanged.

Fears over the delay in the announcement of economic stimulus discouraged investors. Nippon Telegraph and Telephone fell Y19,000 to Y685,000 and East Japan Railway slipped Y9,000 to Y418,000. Other railway shares were also weak, with Keisei Electric Railway down Y13 to Y783.

Bank shares were lower on index selling. Industrial Bank of Japan retreated Y80 to Y2,780 and Fuji Bank lost Y70 at Y1,820. However, Hokkaido Takushoku Bank gained Y2 at Y482 on bargain hunting. The hank, a main creditor of Kahuto Decom, a property developer, has met heavy selling recently on the arrest of the president of the company.

Steel issues lost ground on profit-taking. Nippon Steel, the most active issue of the day, receded Y8 to Y296 and Kawasaki Steel shed Y7 to Y299.

High-technology blue chips were also weak, with Matsushita Electric Industrial down Y20 to Y1,410 and Toshiba dipping Y5 to Y641.

Reports that Eisai, a pharmaceutical maker, will conduct final clinical tests for a cure for Alzheimer's disease pushed the stock up Y30 to Y1,790.

In Osaka, the OSE average fell 371.58 to 18,334.21 in volume of 24.4m shares. Nintendo, the video game maker, relinquished Y140 at Y6,360.

Roundup

Records continued to be set in the Pacific Rim markets, although profit-taking also emerged.

HONG KONG ended marginally higher after a day of seesaw trading in which the Hang Seng index clawed its way hack from an early 91-point loss as investors await the results of the Sino-British Joint Liaison Group meeting which ends today.

The index closed 13.66 higher at a record 9,750.23, after rising a cumulative 442 points in the previous two days. Turnover fell to HK$6.46bn from Tuesday's HK$9.76bn.

MANILA remained at a record high, fuelled by an overnight rise hy PLDT on Wall Street, but profit-taking pared some of the early gains. The composite index closed a net 9.92 ahead at 2,518.92 after posting a 46-point gain within the first 30 minutes of trading.

PLDT advanced 25 pesos to 1,875 pesos, mirroring a $2⅝ rise to $64⅞ in New York.

AUSTRALIA moved sharply forward in response to strong commodity prices coupled with heavy demand for News Corp.. The All Ordinaries index added 22.1 at 2,096.0.

SEOUL rebounded strongly after Tuesday's correction. The composite stock index moved up 13.54 points to 836.71 in heavy turnover of Won1,100bn.

BOMBAY saw hectic buying by foreign investors and speculators in market leaders push the local index beyond the 3,300-point mark to a new 1993 high, although profit-taking in kerb deals left prices off their best levels. The BSE 30 index ended 78.53, or 2.4 per cent, ahead at 3,310.24.

Cadbury India, a 51 per cent-owned subsidiary of Cadbury Schweppes, of the UK, rose Rs35, or 12.1 per cent, to Rs325 amid market rumours that Jardine Fleming plans to buy heavily into the company.

KARACHI hroke records amid heavy hnying of hlna chips as hrokers injected a backlog of orders into the market after two local holidays. Tha KSE 100 index soared 62.57, or 3.5 per cent, to 1,853.45 in voluma of 4.6m.

The rise is attributed to continuing confidence that the government of Ms Benazir Bhutto, the prime minister, has hrought badly needed political stability, *writes Farhan Bokhari in Faisalabad.* In addition, some companies involved in the manufacture of chemicals and pharmaceuticals, as well as those in the financial sector, are expected to reveal higher profits than last year when they announce their results next month.

NEW ZEALAND finished a moderately active session higher amid strong foreign damand for forestry shares. The NZSE-40 capital index put on 9.69 at 2,097.26.

TAIWAN edged ahead in heavy, volatile trade, and the weighted index firmed 8.51 to 4,692.11 in T$50.52bn turnover.

SINGAPORE gave way to profit-taking in hlue chips after Tuesday's record close, and the Straits Times Industrial index dipped 4.33 to 2,159.21.

KUALA LUMPUR closad easler as profit-taking erased early gains. The composite index lost 2.46 at 1,060.79, ending a six-day rising streak which saw the index add 91.15.

BANGKOK edged lower on profit-taking in bank shares in activa trade. The SET index softened 5.64 to 1,436.92 in heavy turnover of Bt23.44bn.

Emerging markets trend set to continue

By John Pitt

If 1993's explosion of international interest is anything to go hy, there is no reason why next year should not continue the trend of rapid growth in many of the world's emerging markets.

At a presentation hy Foreign and Colonial Emerging Markets in London last week the group's chief investment officer, Mr Arnah Banerji, forecast that emerging markets were expected to grow faster economically than the OECD for the foreseeable future.

Baring Securities, in a forward looking strategy document, underlines this point, noting that "while the rich industrial countries struggle to achieve sub-2 per cent real growth rates, the emerging economies regularly clock in with 5 per cent or even 10 per cent annual expansion".

It is hardly surprising then, says Baring, that in 1993 an estimated $25bn was invested in the Asian markets alone hy western institutions, representing growth of some 150 per cent over 1992. In this context, Mr Banerji confidently forecasts strong growth in a number of regions for 1994: top of the list are India and Mexico, followed hy Argentina, Colomhia, Taiwan and Korea.

The case for Mexico sits squarely on the back of the recent Nafta agreement. F & C estimates GDP growth of some 4 per cent next year. Baring sees the market gaining some 59 per cent during 1994, based on a combination of lower interest rates, higher earnings growth and a stock market rerating. India is highlighted hy F & C as having the potential to take off next year, in spite of a fairly lacklustre performance in 1993. Positive factors include consumer-led economic recovery and falling inflation.

EMERGING MARKETS: IFC MONTHLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms 30 Nov	% Change last month	% Change on Dec '92	Local currency terms 30 Nov	% Change last month	% Change on Dec '92
Latin America							
Argentina	(11)	804.40	-2.1	+38.8	493,603.97	-2.1	+39.1
Brazil	(42)	229.65	+8.8	+83.7	73,738,910.69	+48.7	+3435.9
Chile	(20)	495.33	+6.5	+18.4	809.43	+5.4	+26.2
Colombia[1]	(8)	545.83	+5.9	+28.4	784.72	+5.0	+28.3
Mexico	(56)	859.11	+9.9	+27.1	1,153.32	+10.0	+27.0
Peru[2]	(7)	88.25	-25.6	-11.8	117.12	-24.9	+17.1
Venezuela[3]	(8)	588.72	-2.5	+13.3	1,374.35	+0.2	+47.2
East Asia							
China[4]	(16)	121.74	+9.8	+21.7	133.83	+9.8	+33.8
South Korea[5]	(130)	107.27	+7.2	+9.3	113.87	+7.0	+11.9
Philippines	(11)	242.54	+2.5	+81.8	320.23	-3.2	+98.1
Taiwan, China[6]	(76)	90.33	+5.8	+22.4	90.38	+6.1	+29.8
South Asia							
India[7]	(61)	110.02	+21.7	+17.4	121.67	+21.7	+27.4
Indonesia[8]	(31)	106.54	+9.0	+81.5	121.61	+9.0	+84.9
Malaysia	(61)	278.69	+1.5	+70.4	263.09	+1.6	+66.7
Pakistan[9]	(8)	316.20	+18.7	+58.0	430.07	+18.8	+85.5
Sri Lanka[10]	(5)	164.01	+10.5	+64.0	176.20	+10.8	+78.2
Thailand	(52)	372.43	+2.7	+61.7	378.05	+3.1	+61.3
Euro/Mid East							
Greece	(17)	219.10	-2.5	+12.2	365.25	-0.3	+28.3
Jordan	(5)	157.78	-3.9	+35.1	228.18	-3.1	+37.8
Portugal	(16)	110.02	+0.3	+42.4	132.86	+1.4	+70.2
Turkey[11]	(31)	198.19	+15.1	+189.5	1,278.51	+22.3	+365.0
Zimbabwe[12]	(5)	176.38	-3.8	n.a.	184.88	-1.5	n.a.

Indices are calculated at end-month, and monthly changes are percentage movements from the previous month end. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1990; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Aug 4 1989; (12)July 2 1993.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY DECEMBER 7 1993 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY DECEMBER 6 1993 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1993 High	1993 Low	Year ago (approx)
Australia (69)	157.10	+0.7	156.11	106.85	139.30	156.58	-1.1	3.29	155.94	154.23	106.61	138.31	154.86	162.83	117.39	118.84
Austria (17)	180.05	-0.3	178.91	122.46	159.65	159.47	-0.4	1.00	180.68	178.70	123.52	160.28	160.07	184.47	131.18	141.56
Belgium (42)	160.82	-0.3	159.80	109.37	142.59	140.99	-0.3	4.08	161.28	159.51	110.25	143.04	141.39	161.29	131.18	138.34
Canada (107)	134.25	+1.0	133.40	91.30	119.03	128.56	+0.7	2.61	132.92	131.48	90.86	117.88	127.67	135.54	111.41	114.47
Denmark (33)	237.64	+0.4	236.14	161.63	210.71	216.67	+0.3	1.05	236.76	234.17	161.88	209.99	218.15	241.06	185.11	196.20
Finland (23)	123.45	+1.4	122.67	83.97	109.47	148.65	+1.3	0.70	121.70	120.37	83.20	107.94	145.71	129.99	65.50	76.81
France (98)	168.70	-0.4	167.64	114.74	149.57	155.27	-0.3	2.93	169.44	167.58	115.82	150.27	155.75	173.05	142.72	147.00
Germany (60)	134.98	-0.1	134.13	91.82	119.68	119.68	-0.1	1.73	135.08	133.60	92.38	119.81	119.81	136.13	101.59	106.36
Hong Kong (55)	398.06	+1.7	395.55	270.74	352.97	394.69	+1.7	2.76	391.31	387.03	267.51	347.08	388.04	398.06	218.82	207.86
Ireland (14)	176.99	-0.9	175.87	120.38	156.93	176.56	-0.5	3.21	178.65	176.70	122.13	158.45	177.40	179.19	129.28	135.35
Italy (70)	65.57	+1.5	65.15	44.59	58.14	82.12	+0.8	2.64	64.57	63.87	44.14	57.27	81.45	78.93	53.78	58.12
Japan (469)	133.49	+1.1	132.64	90.79	118.38	90.79	+0.6	0.90	132.02	130.57	90.25	117.11	90.25	185.61	100.75	105.57
Malaysia (69)	515.65	+2.4	512.40	350.71	457.21	506.82	+2.4	1.38	503.50	497.99	344.19	446.56	494.97	515.65	251.66	271.21
Mexico (19)	2198.58	+2.5	2184.72	1495.38	1949.45	7463.85	+2.5	0.68	2145.87	2122.37	1466.99	1903.27	7283.71	2198.58	1410.30	1606.17
Netherland (26)	195.05	+0.2	193.82	132.67	172.95	170.21	+0.2	3.11	194.65	192.52	133.07	172.65	169.91	197.07	150.39	158.61
New Zealand (14)	63.41	-0.2	63.01	43.13	56.22	61.11	-0.4	3.84	63.53	62.84	43.43	56.35	61.39	68.38	40.56	42.72
Norway (23)	169.10	-1.0	169.03	115.02	149.94	169.79	-0.8	1.50	170.83	169.01	116.82	151.57	171.16	185.10	137.71	148.16
Singapore (39)	325.54	+1.3	323.49	221.42	288.65	239.65	+1.2	1.34	321.50	317.98	219.79	285.15	236.91	332.55	207.04	201.43
South Africa (60)	229.15	+2.3	227.70	155.85	203.19	218.62	+0.4	2.60	224.06	221.60	153.17	198.72	217.88	229.39	144.72	155.62
Spain (42)	135.90	+0.7	135.04	92.43	120.50	143.83	+0.1	4.15	134.93	133.45	92.24	119.87	143.61	145.24	115.23	118.50
Sweden (36)	188.72	+1.6	187.53	128.36	167.34	232.72	+1.7	1.50	185.77	183.73	127.00	164.77	228.74	206.82	149.70	169.56
Switzerland (50)	155.48	+0.4	154.50	105.76	137.88	141.27	+0.1	1.53	154.93	153.23	105.92	137.43	141.10	155.48	108.81	111.88
United Kingdom (215)	195.48	-0.5	194.25	132.95	173.31	194.25	+0.0	3.72	196.43	194.28	134.28	174.21	194.28	196.43	162.00	176.14
USA (518)	190.13	+0.1	188.93	129.33	168.60	190.13	+0.1	2.73	189.93	187.85	129.85	168.47	189.93	191.56	175.38	178.34
Europe (748)	163.01	-0.1	161.98	110.88	144.55	156.66	+0.1	2.90	163.14	161.35	111.53	144.70	155.78	163.74	133.92	138.45
Nordic (114)	182.84	+1.1	181.69	124.36	162.12	193.77	+1.2	1.28	180.86	178.88	123.64	160.41	191.55	194.54	142.13	153.96
Pacific Basin (715)	144.38	+1.2	143.47	98.20	128.02	102.05	+0.8	1.18	142.71	141.15	97.56	126.58	101.23	186.80	105.89	109.62
Euro-Pacific (1463)	151.99	+0.6	151.03	103.37	134.76	123.07	+0.4	1.94	151.07	149.41	103.27	133.98	122.53	162.86	117.28	121.29
North America (625)	186.65	+0.1	185.47	126.96	165.53	185.91	+0.1	2.72	186.38	184.34	127.43	165.34	185.67	187.68	171.51	174.58
Europe Ex. UK (533)	142.50	+0.2	141.60	96.94	126.38	134.90	+0.1	2.37	142.24	140.66	97.28	126.18	134.77	143.73	112.51	116.10
Pacific Ex. Japan (246)	248.62	+1.5	247.05	169.12	220.47	230.15	+1.5	2.57	245.03	242.35	167.54	217.35	226.69	248.82	152.70	149.42
World Ex. US (1649)	153.69	+0.7	152.72	104.54	136.28	126.96	+0.5	1.35	152.66	150.99	104.37	135.41	125.46	162.89	118.51	122.35
World Ex. UK (1952)	161.94	+0.6	160.92	110.15	143.61	141.25	+0.4	2.08	161.04	159.27	110.10	142.84	140.73	168.68	134.22	136.88
World Ex. So. Af. (2107)	164.52	+0.4	163.48	111.91	145.89	145.25	+0.3	2.25	163.80	162.01	111.99	145.30	144.77	170.46	137.23	140.28
World Ex. Japan (1698)	182.36	+0.2	181.81	124.45	162.25	179.00	+0.2	2.74	182.56	180.57	124.82	161.95	178.58	182.98	157.47	158.92
The World Index (2167)	164.67	+0.5	163.83	112.14	146.20	145.86	+0.3	2.25	164.12	162.32	112.20	145.58	145.38	170.68	137.32	140.28

Constituent change 8/12/93: Name change: World International to Wheelock & Co. (Hong Kong). Latest prices were unavailable for this edition.

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GLOBAL CUSTODY

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Thursday December 9 1993

Growing competition and increasing client sophistication are placing a greater burden upon the profitability of custodial services. But, writes **Norma Cohen**, changes in investment patterns are opening up new opportunities for perceptive custodians

A period of adjustment

There was a time, within recent memory, when no self-respecting international banker would have listed global custody as an integral part of his long-range business strategy.

In 1993, it is difficult to find one who does not, and the glut of services available to customers world-wide is leading to price competition so intense that leading bankers are beginning privately to ask why they wished to pursue the business in the first place.

"In spite of predictions that no new participants would come into the market, new and rejuvenated ones have done so, and this means that margins are shrinking," Ms Jean Pelligrini, vice-president and head of sales at J.P. Morgan's securities and trust information services division, says. "This is good for the customer but bad for the industry."

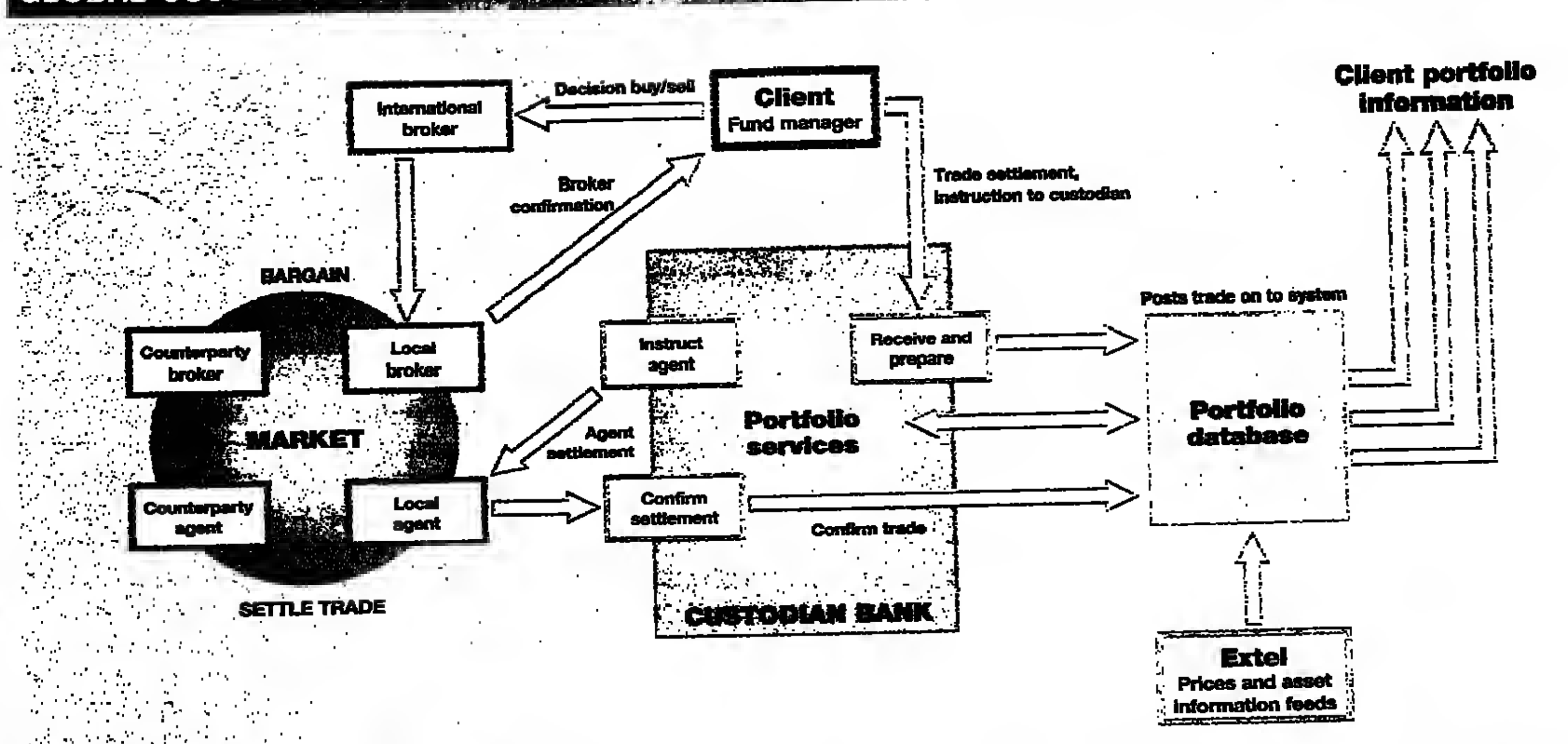
Mr Michael Borkan, vice-president at Bank of New York's global custody operations, believes the business is passing through a period of flux. "As some competitors drop out of the race, others are stepping in to expand the ranks of global custodians. Those that are leaving have found the technology costs too expensive, while those that are entering believe the enticing fees obtainable from global custody offset the expense of state-of-the-art systems."

In the UK, non-bank institutions, particularly Morgan Grenfell and S G Warburg, have begun to compete aggressively for the custody mandates of investors who are not their own fund management clients. Mr Gordon Lindsey, head of securities services at S G Warburg, says that in addition to the $80bn of assets managed by Mercury Asset Management – the fund manager 75 per cent owned by Warburg – £2bn is now that of independent clients.

Throughout Europa, new entities are bidding for the traditional custody business of banks. Among these are multinational companies, such as Euroclear, Cedel and Reuters, all of which already have significant securities processing capabilities.

Broadly, global custody encompasses the securities transactions processing activities of investors of all types around the world. It includes not only the basic master trust business in which securities are held for safekeeping, but far more sophisticated information and record-keeping services as well. In recent years, too, global custodians have found ways to expand the services they offer clients to include foreign exchange, cash management, handling of corporate actions, dividend repatriation, and other services requiring sophisticated information systems.

GLOBAL CUSTODY: how it works



Source: Chase Manhattan Bank

Dramatic changes in the investment patterns of leading institutional investors have created new demands – and new business opportunities – for those custodians shrewd enough to see the new trends emerging, and large enough to have cash to invest in systems capable of servicing them. Central to these trends is the growing internationalisation of investment.

According to InterSec Research Corp, a London-based research group specialising in pension fund analysis, in tha first six months of 1993 there was a minor tidal wave of US pension fund money seeking a home abroad. InterSec, in a piece of unpublished research, concluded that the total market value of US tax-exempt assets with international and global mandates rose nearly $50bn in the first half of 1993 to almost $200bn.

In 1992, by contrast, overseas assets of US institutions rose by $30bn. Moreover, the study found that there has been nearly an additional $2bn invested in equities in so-called emerging markets.

It is this latter trend which has been exciting global custodians who see the opportunity to exploit their banking presence in some of the world's more arcane markets into a new business. Indeed, the emerging markets sector offers global custodians some of the widest margins available, not only on master custody but on foreign exchange and cash management services.

Also, global investors are becoming far more adept in their use of derivatives, with regulators in highly developed markets in the US and Europe increasingly giving the nod to their use for retail products. Mutual funds in the US and insurance contracts in the UK could well find derivatives a mainstream investment tool, with bespoke hedging products such as swaps, caps, collars and equity derivatives creating new demands upon custodians.

Meanwhile, other regulatory changes – the product of a growing desire by banking authorities to minimise systemic risk – are exerting new demands upon custodians. Mr Borkan notes that the US Federal Reserve Bank plans to eliminate the so-called daylight overdrafts which have effectively exposed counterparties to several hours, during which funds have been expended by a custodian upon a customer's instruction, even though the funds have not been received from him.

How custodians will respond to the end of this free float remains to be seen, but it is indicative of the constant demands for improvements in systems technology which custodians are called upon to implement.

The scale of investment necessary to stay abreast of regulatory and market changes is unclear, but Mr Robert Binney, business executive at Chase Manhattan's Global Securities Services, estimates that his bank spends roughly $40m per year updating its technology.

But, while client needs are becoming more sophisticated, so is client awareness of the pricing of the custody product. Mr Ross Whitehill, vice-president in charge or Morgan Stanley's European custody businesses, says the basic master custody service has been reduced to a commodity product, and it is simply not worth his firm's efforts to pursue clients with few other requirements.

While that service commanded 20 to 25 basis points in fees as recently as six years ago, banks can no longer charge more than five basis points and, depending on what other services the client wants, can be bad in some instances for as little as two basis points.

Partly prompted by the role of US pension fund consultants, leading institutional investors are taking a close look at the cost components of their custody charges. The net effect has been a move to unbundle services, spinning out some of those such as foreign exchange which have proved the most profitable elements of a custodian's business.

Indeed, a survey last year by management consultants, Booz Allen, found that no more than 50 to 60 per cent of a custodian's revenues are to be earned in the headline fee. The remainder comes from forex dealing, cash balances, stock lending and other services where only a portion of the profits to be made are passed on to the customer.

In the UK, the National Association of Pension Funds earlier this year issued a study on fee transparency which highlighted custody fees as those which are among the most opaque to pension fund clients. Growing concern among trustees about fees has stimulated the role of the UK pension consultants who see fertile ground in developing their own custody advisory services.

"Unbundling is a trend driven by best practice," according to Mr Binney. "If there is a small foreign exchange transaction, say in an emerging market, the client may regard it as a nuisance deal and be prepared to pay a fee. But if it is a larger deal, say $50,000 or more, it is up to the client to try to get the best forex quote be can."

Growing competition and increasing client sophistication are clearly placing an increasing burden upon the profitability of custodial services.

At the same time, rapid changes in investment patterns are opening up new opportunities for those custodians quick enough to seize the advantage – and who have the resources to invest in building the kind of systems customers badly need.

Editorial production: Roy Terry
Graphics: Robert Hutchison

REGULATION

Controls are likely to be tightened

It is one of the ironies of the UK Financial Services Act that the most sweeping legislation in the industry's history should have overlooked one of the riskiest businesses – custody.

The shock which struck the financial community when it realised the ease with which the late Robert Maxwell stole more than £400m from pension schemes he controlled has since been translated into a wide-ranging review of how custody is treated.

Before the Maxwell affair, custody – the safe-keeping of securities on behalf of investors – had been overlooked by regulators probably because it had been an event-free activity. Not only had there never been any loss to investors as a result of the failure of a custodian, but its activities are little understood by the general public and regulators probably were unsure even what questions they ought to be asking about safeguards.

Since then, the Securities and Investments Board has been goaded into action. In August, it produced a 103-page Discussion Papar raising 65 separate questions about the matter, ranging from whether custody should be an authorisable activity under the FSA to whether custodians should be responsible for sub-custodians they appoint. It also asks what the role of auditors should be and whether regulation of nominee companies should be tightened.

Although the deadline for comment has passed, the SIB has yet to distil the responses from the leading industry trade associations and market participants before deciding how to proceed. Far from limiting itself to some of the narrow risk matters raised by the Maxwell affair, the paper leaves open the possibility of far-reaching changes to the custody business in Britain – and, by extension, overseas.


Robert Maxwell: raid on pension fund caused wide-ranging review

The central issue addressed in the paper is whether those wishing to offer custodial services should be required to seek specific authorisation to do so – a move which would require an act of Parliament to amend the FSA. Authorisation, the SIB notes, would require not only a set of rules but a monitoring agency capable of ensuring that they were followed and imposing penalties or ordering corrective action where they were not.

The SIB has produced a 103-page Discussion Paper raising 65 separate questions

For its part, the SIB said in its paper that it was minded not to go down that route. Privately, the Treasury has said it wishes to avoid re-writing the FSA in connection with the more pressing matters of retail and wholesale market regulation, and it is difficult to imagine it would willingly make an exception for custody. SIB officials point out that most custody operations are carried out by banks which are regulated by the Bank of England. Non-bank custody operations are regulated usually as part of a firm regulated by the Securities and Futures Authority. Thus, there is very little of the custody business which escapes the regulatory net.

That point, however, has not sat comfortably with one of tha leading trade organisations, the Institutional Fund Managers Association. "While most custodians are regulated by the Bank of England, they are regulated with a fairly light touch," said Mr Julian Lefanu of IFMA. Moreover, he said, there are some custodians whose activities fall between the two stools of banking and financial services and "it is the clients that need the comfort of knowing that their assets are protected", he said.

If the pensions industry is to set up a compensation scheme with losses through fraud or theft made up by a levy, pension schemes need to know that any risk of loss through a custodian is minimised.

Another question the SIB raises is whether there should be minimum capital adequacy requirements for custodians. Considering thet every other aspect of financial services – including the provision of nothing more than advice – does carry such a requirement, it is surprising that the safe-keeping of billions of pounds of other people's money does not.

IFMA takes the view that there is little point in setting "position risk" capital adequacy requirements for custodians. "We would nevertheless support a minimum capital threshold to ansure thet the custodian has the standing to carry out his duties," Mr Lefanu said. That way, regulators may rest assured that custodians have sufficient assets to invest in appropriate record keeping and information systems to ensure that tha job is done properly. Without minimum investment, even a well meaning and otherwise honest custodian may inadvertently cause losses to a client by, say, failing to collect or credit dividends.


Ross Whitehill: call to improve sub-custodial agreements

Tha most sensitive question raised by the SIB focuses on sub-custodians

But perhaps the most sensitive question raised by the SIB focuses on custodians and the sub-custodians they appoint. Should a custodian be liable for losses of his sub-custodian, and if so, how?

Mr Ross Whitehill, vice-president at Morgan Stanley, argues that requiring such a measure is absurd and impossible for any leading custodian to meet in any event. First, if the securities are in the name of the client or his nominee, there is no way any other entity could lay claim to them in the event of the sub-custodian's bankruptcy. The only risk relates to cash assets. But in the case of Morgan Stanley, which may have $55bn in cash assets with sub-custodians st any one time, how would the bank reflect its "guarantee" of those assets? Such a charge well exceeds all Morgan Stanley's existing capital and could not appear as a charge on its balance sheet.

That view is widespread in the custodial industry which has reacted with some alarm to the suggestion in the SIB paper.

Instead, Mr Whitehill argues, the answer is to improve the drafting of sub-custodial agreements. Morgan Stanley asks its snb-contractors to guarantee them against wilful mismanagement, non-performance or negligence. In the event of such activities, Morgan Stanley will make its own clients whole and seek to recover from the sub-custodian.

"Increasingly, clients do ask for some protection," he said. Morgan Stanley carries out six-monthly reviews of all its sub-custodial arrangemants to reassure itself of the safety of its clients' money.

Only through thet sort of vigilence, custodians say, can clients be sure that their assets are safe in a sub-custodian's hands.

Norma Cohen

PENSION FUNDS

Goode ideas lacking

Many custodian banks in the UK were disappointed by the Goode Committee, which released its report, Pension Law Reform, at the end of September. Hopes of a flood of new business for independent custodians were dashed.

The Goode Committee, after all, had been appointed to investigate the appropriate legislative responses to the £400m raid by Mr Robert Maxwell on his various group pension schemes, especially that of Mirror Group Newspapers. One obvious possible recommendation was that assets should be placed in the care of truly independent custodians who would be charged with protecting them against all fraudsters, even those who were renegade company bosses or trustees.

This kind of set-up is the practice in the US under the Erisa legislation. There is usually a master trustee which has custody of the assets and deals with a variety of separate investment managers.

In the UK, however, there has been no requirement for separate custody at all. Trustees can hold the assets directly if they wish. In practice it has been more common for external investment managers to maintain their own in-house custody arrangements so that Mercury Asset Management, for instance, the market leader, will as a matter of course use its parent bank S.G. Warburg as its custodian, while Phillips and Drew Fund Management has its own custody offshoot.

Naturally the Maxwell scandals raised awkward questions about the security of custody arrangements and many pension funds initiated investigations into their own situation. For example, Fleming Investment Management says that, since the Maxwell crisis broke more than 50 of its pension scheme clients have inspected the custody set-up, which uses the facilities of the parent bank Robert Fleming. Some clients sent trustees and others sent their auditors.

But when the Goode Committee looked into the pros and cons of independent custody it decided that this was a blind alley. One crucial characteristic of pension funds, it considered, was that assets were always being changed.

"To deposit securities and other assets with a custodian is not like locking them away in a box to be opened years later when a distribution comes to be made," the report asserted. There is a constant flow of instructions in connection with securities transactions, and moreover schemes may be involved in stock lending as a matter of routine.

As things stand, custodians are not expected to question the propriety of instructions so long as they appear to be in order. If fraud is committed by individuals or a group of people acting within the scope of their apparent authority, the fact that assets are held by a custodian will not by itself be a decisive point.

The committee accepted that the intermediation of a custodian may confer some additional degree of security, but not enough to justify the expense and complication of imposing a compulsory custodial role. "Indeed, there is a danger that the use of custodians may well give the semblance of protection without the reality," said the report.

Instead, the Goode Committee confined itself to some lesser observations. It did suggest, for instance, that trustees had a duty to review their custody arrangements periodically and satisfy themselves that they were satisfactory.


Michael Roberts: willing to deal with outside custodians

The report also discussed the question of the authorisation of custodians. Oddly, custodians are not necessarily regulated in the UK at present, although they may be subsidiary operations of businesses which are regulated, such as banks or investment managers.

In practice, many custodians are therefore subjected to indirect regulation through the Bank of England, which issues guidance notes on custody to banks, or through the Investment Management Regulatory Organisation, which imposes detailed rules on regulated fund managers.

At the moment the Securities and Investments Board, the top investment regulator, which usually delegates through Imro in the area of professional investment management, is in the process of a formal review of custodians, including the question of whether they should all be directly authorised.

In the meantime it seems likely the normal UK practice will continue, namely that most pension fund investment managers are responsible for their own custody arrangements.

Although the big US custodian banks such as State Street, Chase Manhattan and Bankers Trust have been making a push for business in the UK, the structure of the pension fund investment business does not favour the domination that the independent custodians have achieved in the US.

There, pension plans typically employ a large number – often more than a dozen – of specialist managers which are often quite small. The role of a central (or master) custodian is therefore quite important.

In the UK it is still quite rare for pension schemes to have more than about four managers: most have only one or two. A separate custodian therefore represents an extra cost and, possibly, extra complexity. This is especially true because the biggest fund managers have their own proprietary back office systems, which may not easily link with those of independent custodians, and moreover they bundle up custody fees with the normal portfolio management charges.

According to Mr Michael Robarts, director in charge of administration at Fleming, his firm is willing to deal with outside custodians if the client desires it. But, he says, "there will be no reduction in fee". This is because of the extra cost involved in adjusting to cope with different systems.

In the wake of the Goode Report, therefore, it looks as though the idea that independent custodians might provide an easy answer to the security problem has been rejected. Any improvements may have to come from closer control of the way in which instructions are transmitted.

In the circumstances, some in the pensions industry are disappointed that neither the Goode Committee nor Imro has yet developed ideas in this area. The aim would be to formalise such questions as signing authority.

Perhaps this would not prevent determined fraudsters, but at least it would be easier to allocate blame for any losses, and perhaps that might make those receiving instructions that much more vigilant.

Barry Riley

Profile: ABN AMRO

Merged banks branch out

Global custody is a prime example of the synergy that was waiting to be exploited when the Netherlands's two biggest banks merged in 1990 to create ABN AMRO, Europe's sixth-largest banking group.

Although both were active in global custody for years before their link-up, Algemene Bank Nederland (ABN) and Amsterdam-Rotterdam Bank (AMRO) had distinct and separate strengths.

For example, AMRO brought to the merged group a two-way communications system for institutional investor clients who are not part of the Swift network. Today, the legacy of this contribution is reflected by the fact that ABN AMRO's system is still called "AMROSS-pc".

ABN, by contrast, had a far more extensive network of international branches and offices, including a large presence in the US centred on Chicago and the La Salle group of banks.

"The merger brought us the benefits of synergy and a bigger base on which to build our global custody business," says Mr Ruud van der Horst, executive vice-president of investment banking and global clients.

Since the merger, ABN AMRO's global custody business has shown sharp rates of annual increase. Around the time of the merger in late 1990, assets in custody totalled Fl 194bn ($102bn). By the end of 1992, that figure had risen by 36 per cent to Fl 264bn.

Part of this growth is simply a reflection of the rise in world stock markets, but part of the increase reflects the expansion of ABN AMRO's client base in global custody.

The bank's bolstered position in custody is due to two factors, according to Mr Fred Berghout, senior vice-president of global securities services.

On the one hand, the Netherlands has a disproportionately large group of institutional investors, reflecting the country's propensity for collective savings through pension funds, pension schemes and insurance companies. "On the other hand, the strong Dutch guilder is attracting foreign investors into guilder investments," he says.


Ruud van der Horst: still doing homework on UK market

ABN AMRO plans to use this base to expand its global custody business, but Mr Berghout emphasises that the bank intends to pursue steady, gradual growth. The bank will not move into a geographic market until it can provide proper back-up. At the same time, its expansion of global custody will be integrated with growth of related services such as asset management, private banking and foreign exchange, a strategy which Mr Berghout describes as sending in the "infantry" and "cavalry" simultaneously.

ABN AMRO is already well-established in Switzerland and France. Top priorities for further expansion are the world's leading capital markets, especially the US and Canada, the UK and Japan.

Additional expansion in the US will be eased by the fact that ABN AMRO is among the largest and most successful foreign banks in the country, thanks to a series of acquisitions in and around Chicago since the late 1970s.

In the UK, which accounts for 45 per cent of Europe's market for institutional investors, ABN AMRO's plans for growth are centred on Hoare Govett, the British stockbroker acquired from Security Pacific last year. Besides global custody, Hoare Govett is also central to ABN AMRO's European ambitions in the entire sphere of international equities, including trading, corporate finance and equities research.

Mr van der Horst says ABN AMRO is still doing its "homework" on the UK market, and a concerted push is not expected before 1995.

The core of ABN AMRO's global custody clients are Dutch institutions such as pension funds. Many of the country's rich pension funds have said recently that they would like to step up their purchases of foreign shares, auguring well for ABN AMRO, which easily leads the global custody market in the Netherlands.

The bank has sub-custodians in nearly 45 countries, of which nearly one third are ABN AMRO branches. Like other custodians, ABN AMRO is trying to step up the coverage of its network in emerging markets.

Dutch pension funds, with a reputation for prudent management and risk avoidance, are not likely to become swift converts to the new-found enthusiasm in the investment world for the emerging markets of developing countries.

"Our expansion in the US is leading us to markets with higher settlement risks such as the more 'exotic' investment countries in Latin America and the Far East," Mr Berghout says, noting that US investors are showing an interest in these regions.

Though careful in their choice of investments, Dutch institutions are also becoming more critical of their own performance and seeking higher returns. This opens up opportunities for selling related services.

Mr van der Horst says that until five or six years ago, securities lending was something which domestic institutions considered simply "not done". That perception is changing, though growth in securities lending among Dutch institutions is still well below that of US institutional investors.

Ronald van de Krol

STOCK LENDING

Clients' awareness grows

International securities lending can be one of the most lucrative aspects of the global custody business. But custodians are beginning to realise that clients are becoming more aware of its profitability.

Some clients have discovered that the fees earned on stock lending benefit their custodian more than themselves. Also, some have gathered a sophisticated understanding of the business, and have grasped that in some circumstances custodians may not be able to maximise fee income from the stocks the client is prepared to lend.

Recently, these inefficiencies have caught the attention of other commercial providers who seek to either help investors maximise profits on stock lending through their custodian, or to help them to lend directly to those who need stock most.

One leading UK institution, CIN Management, the in-house manager of the £13.5bn British Coal pension schemes, is already doing its own direct stock lending.

As a practice, stock lending in the UK received a setback two years ago when the former administrators of pension schemes controlled by the late Mr Robert Maxwell said that much of the £440m in assets missing from the schemes had disappeared through stock lending agreements.

However, writs against several of the world's largest fund managers allege that the activities carried out by the Maxwell pension schemes bore little or no relation to stock lending as it is commonly understood.

Indeed, the government's own advisory panel on pension law reform, headed by commercial law Professor Roy Goode, found that stock lending, properly controlled, is a perfectly reasonable and sensible activity for pension schemes to undertake.

That pronouncement is expected to do much to help restore confidence in stock lending among pension fund trustees and should help to widen the pool of potential lenders.

Thus, trustees attention is turning away from the question of "Is stock lending safe?" to "Is stock lending profitable?".

Mr Mark Weeks, vice-president at London Global Securities, notes that stock lending is also taking on greater significance for the proprietary trading arms of large securities firms. "There is a growing trend to try to finance long equity positions by trying to lend the underlying securities," he said. That technique has been the mainstay of the US Treasuries markets for decades where so-called repurchase agreements for billions of dollars of securities are arranged within seconds. Mr Weeks's own business acts as an intermediary to the stock lending process, particularly among securities firms trying to arrange lending agreements outside their own custodian. However, Mr Weeks is quick to point out that his firm is not seeking to by-pass custodians as a rule. "If the custodian offers a good enough business, we are happy to borrow from them," he said.

The advantage to using an intermediary is that many custodians are themselves attached to securities firms. "If you go out to borrow securities from another broker-dealer, there is always the danger that the details will leak out," he said. "Wouldnt you prefer to go to an independent where the terms of the deal will not leak?".

Meanwhile, technological advances are aiding both custodians and those who would like to manage their own stock lending operations. Tullett and Tokyo, the UK money broker, is setting up a screen to quote prices for securities lending now that new UK rules allow on-lending of stock to third parties.

Also, Reuters Instinet system is shortly to launch a screen-based stock loan matching system which will allow counterparties to electronically match their bargains.

One of the new businesses which has sprung up in response to the growing interest in profitability is Boston Global Advisers, a US-based sister company to London Global which acts as an intermediary. "We are a bolt-on securities lending operation," said Ms Chris Donovan, marketing director. The company offers an agency lending service to pension funds, mutual funds and to custodial banks who have no securities lending operation of their own or which do not engage in the most lucrative aspect of stock lending, cross-border stock loans.

"This is a business proposition made possible by the inefficiencies of the global custodians and because of the size of the portfolios now available for lending," Ms Donovan said. Not only are some clients unhappy at the fee split – in the UK, the average split ranges from 75 per cent received by the client to 40 per cent – some feel they cannot get the maximum use of their securities if they rely only on the custodian to find business.

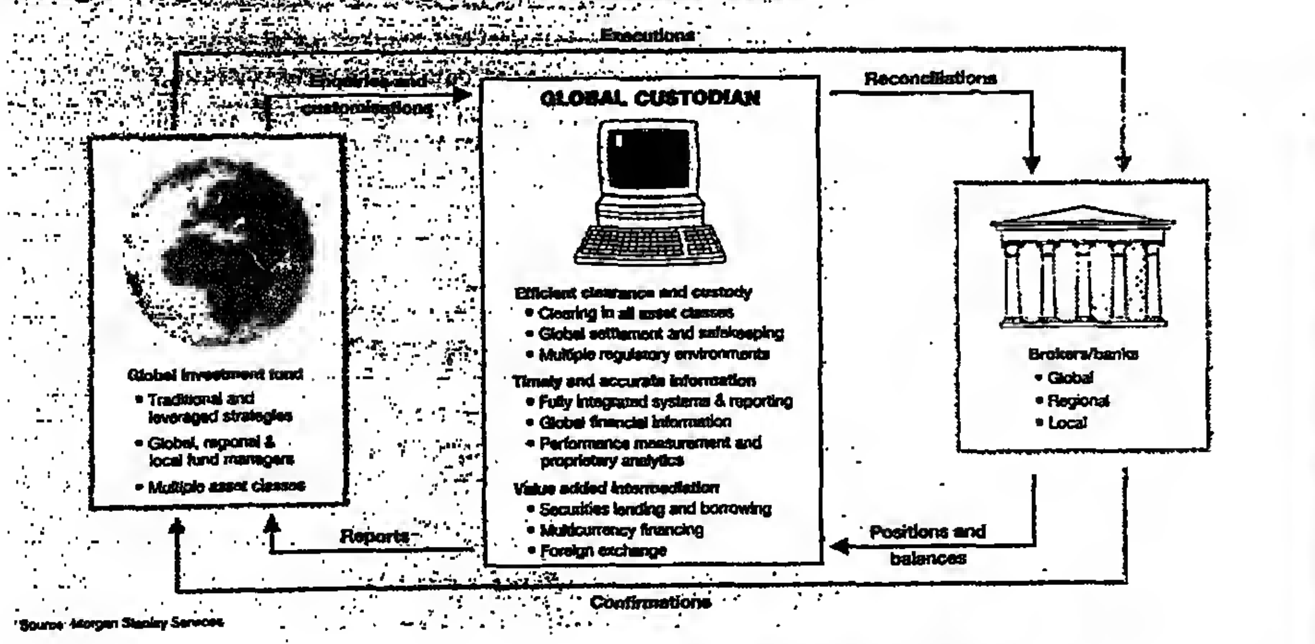
A client with, say, 500,000 shares of IBM stock may have given his custodian permission to lend all of them. But the custodian may have agreements with 20 other clients all holding similar amounts. When an order to borrow say, 1m IBM shares comes in, the custodian will borrow from each of the clients equally and instead of lending 500,000 IBM shares, the client is able to lend only 50,000.

Thus, Ms Donovan said, for the very largest clients, even the most efficient custodians may be unable to get the most profit out of a portfolio.

However, custodians say that those clients trying to bypass them in their stock lending activities probably have little to gain in the long run. Mr Terry Pearson, head of client relationships at Royal Bank of Scotland, the largest independent custodian for UK pensioo funds, says: "The client may feel that they are in control but they are not really. In fact, he is still reliant on his custodian to deliver the stock and collect the collateral." Unless clients have adequate systems to handle the collateral – marking it to market, servicing corporate actions and safekeeping – stock lending outside the custodian could prove disastrous.

Norma Cohen

Integrated global fund management and administration



Source: Morgan Stanley Services

CREST

On the way to speedier settlements

Crest, the Bank of England, iosists, is not an acronym and has no meaning. But in giving this catchy name to the electronic settlement system that is intended to fill the gap left by the Stock Exchange's collapsed £400m Taurus project, has the Bank taken risks with the image? After all, when you pass the crest you go downhill.

Last month a task force set up by the Bank in July issued a working paper describing the design principles of Crest. After a period for consultation, a final specification is due by May next year. Crest will be a stripped-down electronic settlement system, minus some of the complexity which rendered Taurus unworkable. It is due to be introduced in 1996.

Even before that, however, important improvements in the settlement of London Stock Exchange transactions are set to take place.

By beefing up the existing (but old-fashioned) Talisman system used by market makers it is intended to speed up the creaking settlement system which still operates according to a fortnightly account basis.

The provisional timetable is that 10-day rolling settlement will be introduced by July 1994, and five-day settlement by January 1995. This would still leave London settlement some way short of the three-day rolling basis which is the international standard proclaimed by a Group of 30 committee. That would have to await the full implementation of Crest.

However, the latest initiative has already run into the same kinds of snags which delayed and finally derailed Taurus.

There were protests in August, for instance, from the Institutional Fund Managers' Association which said that its members – the biggest users of the London Stock Exchange – were seriously under-represented on the Crest committee, which instead was packed with representatives of custodian banks and registrar banks.

Some institutions are openly sceptical of whether the transitional Talisman-based scheme can meet its targets.

Mr Michael Robarts, director of administration at Fleming Investment Management, says that the move to five-day settlement within little more than a year will prove impractical.

"We don't believe that it will be feasible in a paper-based system," he says. "It is inevitable that backlogs will develop, especially among some of the smaller custodians and registrars. An awful lot of paper has to be passed around."

His potential disaster scenario is that accelerated rolling settlement will be introduced on a flawed basis, and then Crest will fail to appear for some unforeseen technical reason. In any case, other pessimists reckon that Crest will take five years to be introduced rather than the official three.

Certainly, if the move to five-day settlement is to be successful, paper will have to move around between custodians and registrars at considerable speed, and the electronic payment and trade reporting networks which have recently developed will need to be able to interface without hitches.

At some point an unacceptable level of settlement failures would occur, and it would be important for the authorities to back off before this stage was reached.

Another somewhat controversial area is stock lending, an activity which is likely to expand when rolling settlement is introduced and the market makers will have less time to cover their positions. Some fund managers believe that the traditional collateral, consisting of short-term Talisman certificates, is not acceptable for pension funds.

Sceptics remember that even the existing two-week account system caused tremendous problems in 1987 as volume soared in the months ahead of the Black Monday crash.

So the five-day settlement target under Talisman remains in doubt. This is accepted by some on the task force, while among the big brokers some fear privately that up to 40 per cent of trades would fail on a five-day cycle, at least on the basis of present experience.

Nevertheless, the big investors and their brokers accept the need for a speeding up of the settlement process. Private clients see it differently, because they may be required to deposit money with their brokers, and may find themselves forced to run their investments through brokers' nominee services: this would break their direct links to the companies they invest in and expose them to possible default risks should the brokers get into administrative or financial trouble.

As for Crest, it is true that the Bank of England has a track record of building electronic settlement systems, notably its system for the gilt-edged market, which operates on the basis of next-day settlement. But an equity system is inherently much more complicated, given the need to cope with rights issues, takeover bids and various special situations. There are also many registrars to be dealt with, rather than just one as in the case of the Central Gilts Office.

Nobody will be confident that Crest will work satisfactorily unless the design is kept simple. The critical point may be the so-called name-on-register requirement that may have been the straw that broke the back of Taurus: vociferous companies insisted that the original design should be changed so that a full list of investors would appear on their shareholder registers.

This is also known as the designation issue. It would greatly simplify the structure of the new electronic system if identification of individual shareholdings were confined to the custodian's records and did not have to be repeated externally on the company register. However, the Crest working paper leaves this issue open: a Crest member's pooled account might be designated as a number of smaller accounts on the register.

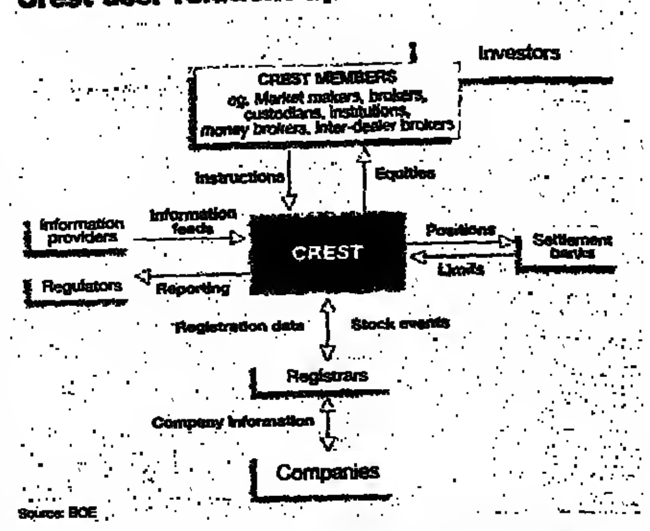
The Bank of England says simply that designation should be available if users are prepared to pay for it. But some institutions fear that too many pension scheme trustees will insist on designation for security reasons, and the system may become overloaded.

The Goode Committee on pension law reform looked at the security arguments for external designation, but decided that with Crest in the offing it would not be desirable to make external designation compulsory.

It remains to be seen whether lobbying by British companies nervous of losing track of suspicious changes in the ownership of their shares will once again block attempts to adopt a simplified approach.

Barry Riley

Crest user relationships



Source: BOE

SETTLEMENT

Braced for radical changes

The City of London's stock lenders and borrowers are braced for a series of significant changes to their business over the next 18 months, as the London Stock Exchange moves to modernise the share dealing mechanism.

Under the present system, UK market makers – who quote prices to buy and sell shares on the London market – have two weeks to settle their accounts and deliver the stock to clients. If they have a deficiency of stock to fulfil an order, they will normally borrow the balance from one of eight Bank of England-authorised money broking houses. These in turn borrow the stock from institutions, such as a pension fund or insurance company, which are recognised by the Inland Revenue. Both the institution and money broker charge a fee for their services, the size of which is dependent on the size and value of the trade, and the duration of the loan.

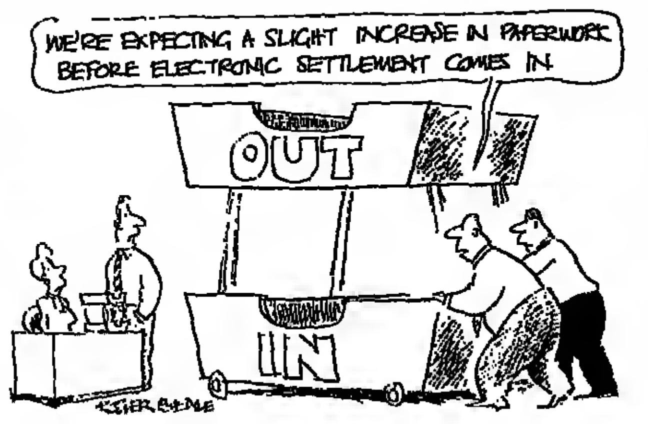
However, in a series of radical changes, the settlement system moves to a 10-day rolling account period next July. By January 1995, the plan is to move to five-day settlement. A year later the Crest paperless settlement system will be introduced.

The impact on the three participants of the stock lending process – market maker, money broker and institution – of these changes are still being debated, both by the Bank of England working party preparing the way for the new system, and by the dozens of City firms and institutions involved in the £2bn-a-day business.

The most important change will be the increase in the number of transactions. Instead of settling their books every two weeks, as now, under the new rolling system market makers will settle on a daily basis. For their part, money brokers will have to borrow from the institutions and lend to market makers more frequently.

By January 1995, the plan is to move to five-day settlement. A year later the Crest paperless settlement system will be introduced

"Every day will be account day from July," says Mr Luby Sparber, head of settlements, at Smith New Court. "Market makers will have to run their positions more tightly and for shorter durations. If they don't it will increase the carrying costs."



Just how much more business will be created under the new rolling system is the subject of much speculation in market circles. An internal study by one stockbroking firm estimated that the amount of stock lending could increase between five and six times.

The Bank of England, which has had access to the dozens of internal broker and institutional studies, suggests a doubling of the number of transactions more likely.

Most observers say the need for more stock should not be a problem at these forecast levels. Mr Dick Vesy, at Lloyds Global Custody, says: "I believe that in absolute terms there is enough stock to satisfy a large increase in requirements, even by a factor of four or five, but only if the demand is allowed to draw out the price sufficiently to attract more suppliers. Some of the institutions may not come in without more money."

The level of increase in transactions will be crucial to the degree to which fees harden. One money broker executive admits: "The margins for both brokers and institutions have gone down in the last two or three years because there's been too many lenders. Fees will go up, and any increase after rolling settlement will help redress the balance."

Typically, a money broker will calculate the fee for a trade with a marketmaker as follows: the size of the loan (i.e. the number of shares) multiplied by the share price, multiplied by the basis rate (usually around 50 points) and divided by 36,500. This gives a daily rate and is then multiplied by the duration of the loan. The institution will be paid a fee by the money broker of just under half of that received from the market maker.

The likelihood of greater volumes in stock lending have also given rise to fears over the extra amount of paperwork that will be generated and the present system's ability to cope prior to the Crest paperless system taking over.

One solution that may develop is for market makers to help each other to balance their books at the end of each day's trading. This would only apply to smaller trades, but would considerably reduce the amount of paperwork from the rolling settlement system.

The Bank of England has also commissioned a sophisticated computer model of the stock lending process in an attempt to identify potential bottlenecks. Various areas for improvement are being examined, including introducing a code of practice for the registrars, and reducing the movement of share certificates, particularly where the value of the loan is considerably less than the certificates' face value.

The Bank of England has commissioned a sophisticated computer model of the stock lending process in an attempt to identify potential bottlenecks

"There is a lot of slack to be taken up," says Mr Iain Saville, who heads the Crest project at the Bank. "We are confident that savings can be made to make the system operate more efficiently."

There has been some pressure to make more radical changes to the system, mostly from the market-making side. One leading market maker says: "The proposed changes simply bring us into line with other countries' systems. But the mechanism's still too restrictive. It inhibits arbitrage and puts obstacles in people's way. There's a huge pool of outside investors who see the UK market as overvalued and who'd like the opportunity to short it. There's a groundswell of opinion that London should get in step with the rest of the world's markets."

Supporters of the changes say that the uniqueness of the quote-driven system underpins the success of the stock lending business. The Bank of England believes that "the planned changes for stock lending in London will facilitate marketmakers in providing an excellent quote-driven system with liquidity. This will be extremely good not only in the absolute but also by international standards."

Christopher Price

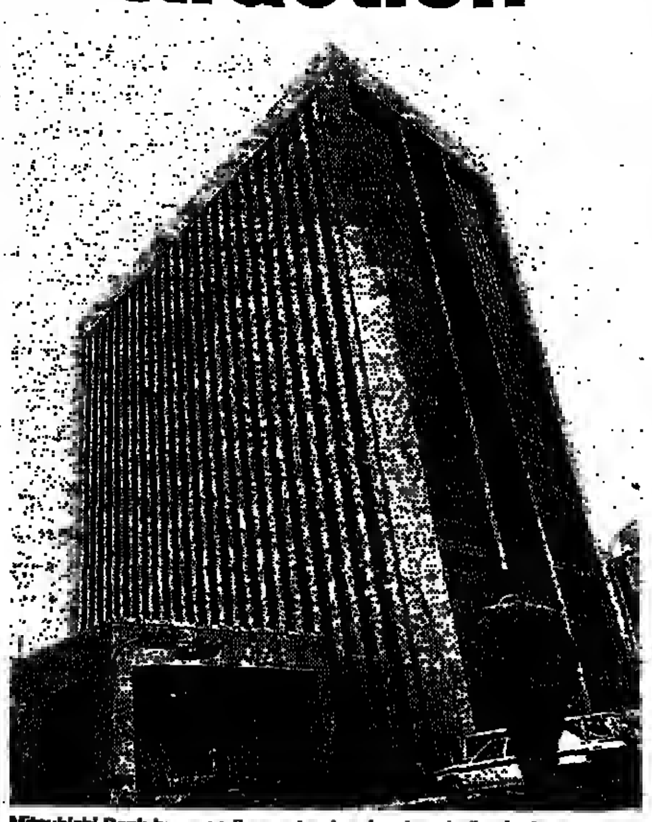
EUROPEAN COMPETITION

Dual attraction

Last June, the European Community's proposed directive liberalising pension fund investment was sent back to the drawing boards for a rethink, setting back the cause of cross-border investment.

Significantly, one of the sticking points was the French and Italian governments requiring that custody of pension scheme assets be held domestically – a measure which flies in the face of the spirit of the internal market.

Europe remains an attractive market for custodians, particularly with the growing interest in cross-border investment. Moves to ease restrictions on outward investment in Scandinavia and the Netherlands have made European markets even more attractive to custodians than they had been previously. Moreover, custodians will admit privately, Europe has another attraction: its clients tend to be less sophisticated in their zeal to pare fees to their lowest levels and, consequently, business based there may prove more profitable than in some other centres.



Mitsubishi Bank has won the contract as local custodian in Japan

Recent liberalisation of Scandinavian investment rules, allowing foreigners to buy domestic shares, for instance, are opening those markets for non-domestic custodians, while the lifting of foreign investment restrictions on some of the Netherlands's largest pension schemes are creating opportunities there.

Custodians say that there are very few domestic rules which formally bar them from competing fully for European business. There are, however, a series of local customs and practices which, when added together, have made some centres hard to penetrate. Mr Ross Whitehill, vice-president at Morgan Stanley's European custody operations, says that the so-called "reciprocity" deals are far more of a barrier to true competition than any formalised local rules. In reciprocity deals, a bank, based, say, in Thailand, will approach a Swiss bank to act as custodian for all its Swiss-based transactions. It will, however, request that the Swiss bank use its custody services for all its Thai business. In that way, competition by non-domestic competitors is avoided.

However, custodians cite two European markets – France and Germany – as particularly difficult to penetrate. Mr Colin McClatchy, operations director at Wells Fargo Nikko Investment Ltd, notes that some rules which restrict the activities of foreign fund managers also make life difficult for would-be non-domestic custodians.

For instance, any fund manager wishing to offer a *spezialefunden* which attracts capital gains tax relief will find that the rules require the use of a so-called depot bank as custodian. And, because it is largely the banks themselves which offer *speziolefunden*, "a non-German investment manager is going to search long and hard to find someone to act in that capacity".

The door is not entirely closed to those wishing to act as custodians of retail funds, he notes. There is a provision for registered foreign funds to attract similarly generous capital gains treatment as the *spezialefunden*, but their chosen custodian must demonstrate that it is controlled to the sama standard as a depot bank. But as a practical matter, he said, that standard has proven very difficult to match. "In institutional terms, I know of no one who has cracked the German market. And UK institutions which own German institutions have almost no leverage either," Mr McClatchy said.

And in France, Mr McClatchy notes, "there is a cultural tendency always to choose a domestic provider". Small wonder then that the greatest pressure for custody of pension fund assets to remain at home comes from France. And although the argument presented has been about the need to reassure scheme sponsors that their assets are physically within reach, there remains considerable scepticism that the French are most interested in keeping competitors out of what has been a safe business until now.

"Our judgment is that the French and German markets offer potential in the longer term," said Mr Robert Binney, business executive for Europe in the Global Securities Services division of Chase Manhattan Bank. "But not in the next few years." The existence of foreign exchange controls in both those countries has tended to mitigate against cross-border investment, making them less attractive to a global custodian prospecting for new business, he said.

Custodians say that perhaps the most significant development in European markets is tha Swiss initiative, to he known as Intersettle. This allows all the Swiss banks who choose to be members to bargain collectively for master custody services in other markets. Mr Wolfgang Michaelis, chief executive of Intersettle, said the project should he ready around mid-1994.

"Our goal is to become a cross-border clearer for Swiss participants, with the exception of Euroclear and Cedel," he said. The two are the giant clearing agents for Eurobonds and international equities with deeply entrenched businesses in Switzerland. "We are a mouse and they are an elephant," he said.

Intersettle has 146 members and SFr50m (US$34m) in capital. Under the system, the Swiss banks will keep some of the higher margin business of custody but are outsourcing basic business with a single supplier in each market. The effect has been to enable the Swiss banks to obtain the best pricing and servicing of the basic product in each foreign market. In the US, Brown Brothers Harriman has been chosen as the local custodian, while in northern and southern Europe, Citibank has the contract. Citibank has also won the contract in South America, while Barclays will act as agent in Africa. In Japan, Mitsubishi Bank has won the contract while ANZ has done so for Australia. Hong Kong and Shanghai Bank has won the contract for the remaining Pacific rim countries.

Membership in Intersettle is not limited to domestic Swiss institutions – any locally-based bank may join, Mr Michaelis said.

Norma Cohen

FUND MANAGERS

The going is getting tougher

Competition is getting tougher for custodians as fund managers become more aggressive and a range of new pressures sweeps over the industry.

"In three years' time, we are going to see a move towards independent custodians and fewer players in the UK market," says Mr Nigel O'Sullivan, a partner with Bacon & Woodrow, consulting actuaries, who scrutinises custodians.

"Previously custody has been an area neglected by pension trustees," he says. "People spent all their time considering fund managers. Now they are taking a far more detailed look at custody."

But he describes a number of "nightmares" which have illustrated the need for greater attention to the hack-office functions, such as custodians who have failed to collect dividends. More generally, he says the industry is becoming more alert to "rip-offs" such as tardy income collection, and ambiguous cash management policies which provide low rates of interest.

Mr O'Sullivan also highlights the lack of transparency in charges. He says custody fees have often in the past hundled up opaquely with fund management fees. Now that is beginning to change.

So is the level of fee-cutting. He says: "The US banks have come over and where you used to be quoted 10 to 12 basis points for custody, now it is probably 3 to 4. We're sceptical.

"The ideal custodian is ideally like the Victorian housekeeper: someone you don't see much of," he says. Among the factors he looks for are assurances on the safekeeping of the assets; that settlement is contractual; that there is adequate redress if things go wrong; and that there is sufficient scrutiny of sub-custodians overseas.

Nigel O'Sullivan: "nightmares" illustrate need for greater attention

"If an agent defaults, we would like the custodian to make up the difference," he says. "We are very much against the idea of limited liability, and are increasingly asking custodians to get their parent company to countersign agreements."

He is not opposed to fund managers offering custody services, hut recommends separate contracts with the custodians.

Mr Markus Ruetimann, director of client and business services at UBS Asset Management in London, is not afraid to take action when he is not satisfied with custodians. "We got rid of two agents this year," he says. "That is part of our continuous review seeking improvement in quality."

He propagates what he calls "the seven Cs" he developed in helping to determine the right custodian to work as partners with his company:

- Cash management: including stocks invested in interest-bearing accounts with the interest passed on to the client.
- Curtailment of risks: ensuring that potential custodians have appropriate systems, controls and insurance.
- Competitiveness of fees: to be offset against quality of service provided.
- Credit-rating: examining the net assets and ensuring the balance sheet of the agent is healthy.
- Communication and technology: how easy it is to communicate with agents and maintain links with them.
- Customisation capabilities: now that custody is becoming more commoditised.
- Commitment and comfort: with regular checking of compliance backed up by personal visits.

Mr Ruetimann stresses several particular priorities at present: "Helping us to reduce the risks; making sure their creditworthiness is up to standard; and continuously monitoring performance."

He says custodians are now having to take a more active role to market themselves. "Before they would say this is the service we will provide, take it or leave it," he says. "Now they are having to accommodate technical changes."

UBS Asset Management presents a threat to independent custodians, because it believes that fund management and custody go hand-in-hand and need not be separated.

Markus Ruetimann: propagates what he calls "the seven Cs"

Mr Ruetimann argues that lobbying by custodians and the trade press in the wake of the Maxwell scandal – and echoed in the recent Goode Report which it triggered – has unfairly tilted the balance towards custodians independent of fund managers.

He says there are strong advantages to providing both services, since combined providers can share information, pool cash and eliminate the errors that can be introduced when a third party is involved.

As evidence that the market appreciates this approach, he says his company now has more than £31bn under management, including £25bn of assets in custody.

On the other hand, UBS Asset Management does still offer business to other custodians, since it believes in local and regional custodians rather than handing out all custody work to a single global contract.

It only uses its own custody service for domestic equities in the UK, and on its home territory in Switzerland. Elsewhere, it sub-contracts the work to some 20 local custodians around the world, and to two regional custodians: one for the Pacific Rim and the other for North America.

His company has undertaken a costly exercise this year, examining and overhauling its custody agreements to ensure that the services required are spelt out, and that details are provided of insurance cover, control procedures and audited financial information.

Other pressures changing the demands of fund managers for custodial services include the growing range of financial instruments. "We are having to demonstrate more sweeping abilities in more esoteric areas such as collateralised mortgage obligations and futures and options," says Mr Ross Whitehill of Morgan Stanley.

At the same time, there is a growing move towards overseas investment in emerging markets, which is increasing the emphasis on sub-custodians. "It is up to us to pioneer services in these regions," he says. "We must he there in Vietnam or Peru when markets open up."

But the next few years will not he easy. Mr O'Sullivan warns: "There is a price war on at the moment. You have to spend a lot of money on technology. Those without deep pockets are going to he left behind."

Andrew Jack

EMERGING MARKETS

Investment fashion of the 90s

Emerging markets look like being the investment fashion of the 1990s. Scarcely a week goes by without a new fund being launched in the field, and enthusiasts are constantly urging institutions to increase their portfolio weightings in emerging markets to between 10 and 20 per cent.

But the catch-all phrase "emerging markets" covers a multitude of countries in Latin America, Asia, southern Europe and some parts of Africa.

Many markets are, almost by definition, small and without a long tradition of welcoming internatiooal investors. That creates the potential for many custody problems.

Until recently, many managers complained that custodians were not committing enough resources to emerging markets. But the growing popularity of these markets means that custodians seem to have improved their service.

The pattern seems to be that most managers appoint a global custodian, which in turn appoints sub-custodians in individual markets. There are some exceptions, however. Some managers use regional custodians; specialist country fund managers like to have a direct relationship with a custodian in their particular market.

Mr Richard Royds of Mercury Fund Managers says his group has Warburg as overall custodians but then uses Chase Manhattan as custodians in less accessible markets. "We have found service surprisingly efficieot; on the other hand custody is less of a problem when markets are rising" he says.

According to one fund manager "Chase Manhattan is the most important player. There's a fairly big gap after that to Citibank, which has the widest agent network of anybody. What it lacks is a good co-ordinating network."

Another fuod manager describes Citibank as "thinly spread but recovering strongly". State Street, which the manager ranks third in the list, is described as having "the best quality of service but is not the cbeapest".

Some fund managers found that settlement conditions in tbe emerging markets were much better than they expected. Mr Kenneth King of Kleinwort Benson says he "basn't found any emerging market that has given me anything like as much of a problem as Italy did in the mid-1980s. One always feels nervous when one goes into a new market. But so far, we have not suffered any significant inconveniences. In fact, it is a tribute to the efficiency of the custodians."

"We have never experienced a counter-party failure. Tbe problem is not so much custodial as the initial set-up," says another manager. "Some countries require a lot of documentation before you can invest. Our application to invest in India is a pile of paper 2½ feet high. When you actually get to invest, settlement is not too bad. But managers can have problems keeping track of, and dealing with, bonus issues and corporate restructurings, which can be surprisingly complex."

Whereas managers seem relatively happy with most areas of settlement, foreign currency dealing can be a problem. One manager says: "If we were doing a share trade in a normal market, then the local currency deal would be separate. In emerging markets, that is not often possible. Often there is no interbank currency market. Theo there are repatriation restrictions, which might limit your freedom when you want to sell."

"Quite a lot of custodians make a lot of money out of trading curreocies. Tbey've been beaten down on fee levels but they get it back in the currency markets," according to another manager. He cites an example of the difficulties. "The Braziliao cruzeiro is declining at 1.5 per cent a day. One needs to know the time of day the deal was done to know wbether one got a good rate."

Cooversations with fund managers illustrate why custodians are so eager to advertise their expertise in emerging markets. For while the risks are clearly far greater the potential for profit is correspondingly higher.

Inevitably, with such a wide range of countries, the problems vary widely from market to market. "The Latin American markets are red bot on settlement," says Dr Arnab Banerji of Foreign & Colonial Emerging Markets. "In Latin America, inflatioo has forced them to have a good banking system," agrees another manager. "But some markets are bumpier than others. In Venezuela, it can take over 50 pieces of paper to settle a trade."

One fund manager said: "India gives me attacks of nerves. The nature of the Indian market is tbat many brokers have little capital backing. That gives me cause for concern."

It would be wrong to think that every pension fund in the UK is happy to dabble in Chilean equities. Some institutions will only invest directly in the more substantial emerging markets, or in shares which are traded in the form of American Depositary Receipts. If they want to get exposure to one of the smaller emerging markets, they will do so via the growing number of single country funds.

Philip Coggan

Emerging Markets

Country focus List

Primary

Asia and Pacific
Bangladesh
India
Indonesia
Korea
Malaysia
Pakistan
Papua New Guinea
People's Republic of China
Philippines
Sri Lanka
Thailand
Vietnam

Europe
Czech Republic
Greece
Hungary
Poland

Europe (continued)
Portugal
Turkey

Middle East and Africa
Botswana
Mauritius
Zambia
Zimbabwe

Caribbean and Latin America
Argentina
Brazil
Chile
Ecuador
Mexico
Peru
Venezuela

Secondary

Asia and Pacific
Fiji

Caribbean and Latin America
Costa Rica
Jamaica
Trinidad and Tobago
Bolivia
Colombia
Uruguay

Europe
Slovakia

Middle East and Africa
Egypt
Ivory Coast
Jordan
Kenya
Malawi
Morocco
Nigeria
Swaziland
Tunisia

Genesis Investment Management Limited

DERIVATIVES

A new set of challenges


Fund managers using derivatives prefer futures traded on exchanges

The growing use of derivative instruments by fund managers has created a new set of challenges for global custodians – challenges which only a relatively small number of custodians are meeting, according to some of their clients.

So far, European fund managers have been slower to jump on the derivatives bandwagon than their US counterparts. Those who do use derivative instruments tend to limit themselves to standardised futures and options traded on exchanges. Few have started to use over-the-counter instruments specially designed and sold by banks, such as swaps, which can be extremely complex and esoteric.

But the use of derivatives is expected to become more widespread in the next few years, so there is likely to be growing demand for custodial services which are designed to suit the special requirements of derivative as well as cash instruments.

For example, Bankers Trust, which is custodian of $1,000bn of assets worldwide, estimates that 30-50 per cent of fund managers with more than $500m under management are using or reviewing the use of derivatives.

"Traditional custodians provide custody for physical securities," says Mr Alex Over, bead of sales for UK pension funds, Global Securities Services at Bankers Trust in London. "Their systems are only geared to physical assets, and have to be tweaked to handle derivatives."

According to Mr Aidan Dennis, product development manager at Chase Global Securities Services, the needs of clients have not changed fundamentally. "They still want to hear ebout their positions on e daily and weekly basis," he says.

But the advent of more complex instruments has meant that a straightforward listing of assets may no longer be considered adequate. In fact, a frequent complaint of fund managers using derivatives is that the reports tbey get from custodians are extremely difficult to understand. These days, Chase provides some clients with three different reports: a list of assets, a valuation of assets and a calculation of net exposure.

According to Mr Over of Bankers Trust, custody is "rapidly becoming an information business". Increasingly, clients rate valuation and accounting services as highly as custody and settlement services.

The custodians at the forefront of derivatives custody tend to be those with a strong in-house derivatives capability on the investment banking side of their business, which gives them a competitive advantage.

"Our systems are developed by investment banking. The growth in the number of (derivative) instruments is phenomenal. Without their input, we would not be able to develop quickly enough to keep up with the changes in the market," said Mr Dennis of Chase.

While the majority of fund managers using derivatives limit themselves to futures, where their main demand is for custodians to deal with margin requirements, some clients have more sophisticated needs.

The European Bank for Reconstruction and Development (EBRD) recently farmed out ECU260m (US$296m) of assets (of its total liquidity of more than ECU1bn) to six fund managers, and eppointed Bankers Trust to act as custodian for the funds.

One of the key issues for the EBRD in choosing a custodian was the ability to handle the reporting and settlement of complex derivative instruments.

Unlike most pension or insurance funds, the EBRD funds can be invested only in fixed income assets, but a wide range of derivative instruments are allowed, including over-the-counter instruments, such as swaps, caps and floors.

"Typically the clients of custodians in Europe have been pension funds, with broad asset class allocations between equities, bonds and cash," said Mr Andrew Donaldson, a treasury official at the EBRD. Unlike derivatives, the reporting of these instruments is very straightforward, he says.

"When you look at what different custodians do there is a huge range in their abilities. Many pension fund custodians can handle equities very well but get tripped up by more complex instruments. They are not set up to handle derivatives."

Bankers Trust has drawn on skills from the W M Company, its wholly-owned subsidiary which specialises in performance measurement and portfolio valuation and accounting, as well as from the investment banking side of its business, it is a market leader in derivatives engineering.

Because the W M Company has 80 data feeds from different sources, Bankers Trust can offer cost effective and accurate marking to market. "We can do it because we can leverage off an existing capability," says Mr Over.

The issue of valuation is rather a grey area, partly because fund managers are themselves still coming to grips with it. There are no set accounting standards for derivatives, as there are for physical assets.

A year ago, Mr Glyn Pete, a director of Lazard Investors, chaired e committee of the Pensions Research Accountants Group (Prag), an association of 200 UK pension fund practitioners, which published guidelines on the use of futures and options by pension funds concentrating on how best to meet reporting, control and performance measurement demands.

The report, according to Mr Pete, has not been welcomed with open arms. "Many of the people I talk to are aware of the report, and when they sit down and decide how to incorporate derivatives into their portfolios they look at it, but it has not been accepted across the board," said Mr Pete.

He added that a number of global custodians are looking at the standards and working on implementing them into their derivatives services.

Global custodians make money by charging relatively small fees for handling massive amounts of money. Although extra charges are made for dealing with derivatives, they are generally small. Nevertheless, the ability to offer custody services which deal with derivatives as well as cash instruments is likely to become an increasingly important marketing ploy for custodians.

Mr Dennis thinks that this ultimately means that "those that can't play in the derivatives market will not be able to play in the custody markets".

Tracy Corrigan

UNBUNDLING

Focus shifts to hidden costs

For years, fund managers quietly made a tidy little business out of handling the custodial arrangements for the pension funds whose assets they invested.

Then, one day, along came the Robert Maxwell pensions scandal, and all those cosy contractual arrangements were held up for scrutiny in the broad light of day. In particular, regulators and pension fund trustees wanted to know, is it safe to entrust your assets to the custodian who is also responsible for investing them. After all, it was partly because Mr Maxwell's fund management company also controlled the custodian that more than £400m in pension fund assets was extracted with such ease.

To the relief of many fund managers, the government's advisory panel on occupational pension fund safety, headed by Professor Roy Goode, decided that there was nothing inherently unsafe about a fund manager using its own custodian for client funds.

However, the debate has focused attention of trustees on their custodian arrangements and what they pay for them, opening the door for the unbundling of custody services.

Earlier this year, the National Association of Pension Funds, in a landmark study on fee transparency, highlighted custody as one of the areas where trustees were in the dark about exactly how much they were paying for the service.

And not for nothing. Mercury Asset Management, in a posture which is typical in the fund management industry, insists that its fund management fee is inclusive of custodial services. Those clients wishing to place their custodial arrangements externally will find themselves paying more for fund management. Mr Gordon Lindsey, head of custody services at S G Warburg, 75 per cent owner of MAM, says that is because the company uses a single data base for its fund management and custody arrangements. A requirement to send instructions to an independent custodian would increase costs and the customer would have to pay accordingly.

The National Association of Pension Funds has highlighted custody as one of the areas where trustees were in the dark about exactly how much they were paying for the service

Nevertheless, there is growing demand among clients for unbundling of custodial services; not just separating it from that of the fund management but for the outplacement of such services as foreign exchange, cash management and securities lending which have traditionally allowed custodians to earn a handsome return on a client's portfolio.

"Unbundling is a trend driven by best practice," said Mr Robert Binney, business executive at Chase Manhattan's global securities services division, who notes that the trend has been under way in the US for several years. "European custodians see this as a bit of a shock. They are losing tied business," he said. Mr James Economides, global product manager for Citibank's global custody operations, says that clients are showing growing sophistication in selecting service providers. "Clients are becoming more aware of spreads on things such as foreign exchange and cash balances," he said. "For the big ticket items, clients are likely to look to do that away from us."

That trend means that custodians are having to re-think their pricing structure which undercuts the cost of the core master custody business on the assumption that profitability will be made up by the "turn" earned on provision of other services.

At Morgan Stanley, the inclination of some clients to do forex and cash management business away from the custodian is likely to lead to alterations in the basic fee, said Mr Ross Whitehill, vice-president of European global custody operations. It has not, however, prompted the bank to try to require custody clients to do all their business with Morgan Stanley.

That, Mr Whitehill argues, would be counter-productive.

And indeed, pension fund clients say, the US global custodian banks are leading the way in the unbundling of their services. Mr Brian Matthews, finance director of ESN Pension Management, which manages the £12.5bn in assets of the privatised electricity companies, has been strenuously urging the unbundling of custody services.

For some years, ESN itself has pursued such a policy. "You appoint a custodian and you appoint a fund manager on the basis that you need to have clarity of responsibility and clarity of cost." The custodians, he says, "are right to say that they can give you added value. But they are not always entirely open about the fee structure." For instance, clients may not always be clear on the way fees earned on stock lending are split between the custodian and themselves, with the split ranging typically from 75 per cent in the client's favour to as little as 40 per cent. The difference, over the course of a year, can mean a significant amount of income lost to the client.

Also, many custodians offer interest only on balances above a minimum level. When a host of small accounts are aggregated under the control of the custodian, the interest generates some significant degree of income which clients may not readily understand is income they have foregone. In effect, the custodian's failure to pay interest on all balances represents a hidden payment by the client although it may not be readily seen that way.

Moreover, some custodians arrange to perform services for clients that the client is easily suited to perform more cheaply for himself. Mr Matthews says that ESN, for instance, performs its own tax reclaim service and can achieve full tax refunds within 72 hours. Of course, such exercises are only worthwhile for the largest pension schemes but even then, surprisingly few have investigated the matter.

But longer term, Mr Matthews said, unbundling is going to be a fact of life in European custody markets. The willingness of the US global custodians to unbundle fees and services will force even the most recalcitrant European providers down that route as well. "The American global custodians will simply not go away," Mr Matthews said.

Norma Cohen

UNITED STATES

Carried abroad on a new wave of assets

It is not difficult to see why the interest of US custodians in the international financial markets has intensified this year. The domestic US custody market has been pretty cut-throat for some time, of course, while handling cross-border investments has been less competitive and hence more profitable.

This year, though, two other factors have tilted the outlook internationally. The custodians are being carried abroad on a new wave of US assets: their domestic customers, led by mutual funds, have turned with renewed interest to foreign markets in search of better investment returns than those available at home. And the activity (and price) levels in some emerging markets have reached such heights that they have produced substantial revenues for clearing and custody firms.

Other factors have also been at work. According to Mr Mike McShee, in charge of asset services for the Wyatt Company in Europe, US pension fund accounting rules introduced in the late 1980s prompted standardised reporting of US multinationals' worldwide pension funds for the first time; this, in turn, has led many US financial executives to focus for the first time on what their overseas funds were doing – encouraging a greater centralisation of worldwide investment management and (inevitably) custody.

The commercial banks with a long-standing international presence have benefited most from these shifting patterns. They include Chase Manhattan, the world's biggest custodian with more than $1,000bn in assets, Citibank, which clung hard to its far-reaching international network when other US banks cut theirs and which remains the biggest custodian in non-US markets with $250m of assets, and two newer entrants – Bankers Trust and J P Morgan.

The cross-border element of the $16,000bn custody business, already at 8 per cent, is set to climb to 15 per cent, says Mr Steven Baker, head of Citibank's global custody business. It will be US institutional investors, who have traditionally been less active internationally than their counterparts elsewhere, who will drive much of this growth, he says.

Cross-border business is already more important to the US custodians than the broad figures suggest. Most of the big custodians deal with three or four times the assets in the US that they handle abroad. The higher margins on international business, though, and the opportunity to handle foreign exchange transactions for customers, make the revenues from domestic and international much more even.

The US custodians have been busy investing in new technology and reorganising their own businesses to keep up with these developments. Chase, for instance, is in the process of transferring its US customers on to a new multi-currency accounting system (it used to have separate domestic and global systems). Citibank this summer reorganised away from management along geographic lines to management by product, switching its focus to three areas with the greatest opportunities internationally:

Cross-border business is already more important to the US custodians than the broad figures suggest

custody, clearing, and the handling of American Depositary Receipts (ADRs).

When the international tide of US money slows, the custodians will find their ambitious investment plans harder to justify. Their fee income may not move up and down exactly in line with asset prices in world markets, but there is nonetheless a degree of correlation. Also, clearing operations depend heavily on activity levels. A price fall in some of the hottest emerging markets – which have also been among the most actively traded – would hit revenues hard.

In the domestic US market, meanwhile, aggressive pricing in pursuit of market share is at last beginning to throw up a clear set of dominant institutions. State Street Bank, Boston Safe Deposit and Trust and Bank of New York, alongside the other big New York-based commercial banks, have all strengthened their hold. "The market leaders in each segment of the market are beginning to be able to price as leaders," comments one.

Two forces have been at work. One has been a focus by different institutions on different sectors of the US market. Rather than talk about one domestic market, custodians now talk about a handful of separate markets: mutual funds, mastertrust (largely corporate pension funds), insurance companies, defined contribution pension plans (mainly section 401k plans) and master-custody (public sector custody work).

"Everyone is searching out their own niche," says Mr Peter Derrenbacher, head of Chase's family of North American custody business. "You don't see people bidding to get into certain market segments: if they're not already in the insurance business they're not trying to get into it."

The second force reshaping the domestic market has been a growing consolidation among custodians. The biggest deal to date – American Express's sale this year of Boston Safe to Mellon Bank – has not been without problems: Mellon is suing Smith Barney, which took over Amex's Shearson broking business, for interfering with its handling of the custody of Shearson's family of mutual funds. With market share the focus of most institutions' strategy, such squabbles over the right to handle assets are not surprising.

Other expected big deals have been slow to materialise. As long as the big custodians can support their ambitious investment plans with buoyant income from their international business, that may continue. But the talk of consolidation is likely to turn into action should the international gravy train lose momentum.

Richard Waters

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Profile: STANDARD CHARTERED

Profitable shake-up in Asia

This year the world's institutional investors woke up to economic developments in eastern Asia. A flood of funds from ovarseas, particularly from the US, has sent most of the region's stock markets soaring.

The Manila and Jakarta stock markets have risen more than 70 per cent since the beginning of the yaar. Hong Kong, Bangkok, Kuala Lumpur and Singapore have been setting new highs in often frantic trading.

The rise of eastern Asia's equity markets has been very good news for Standard Chartered's custodial services division, now called the Equitor Group.

"In late 1991 the bank reorganised and decided to dedicate more people and resources to custodial services," says Mr Paul Barker, tbe Equitor Group general manager overseeing the custodial needs in Asia of institutional clients.

"Before we offered services on a country by country basis. Now it's a more integrated operation. The reorganisation was really a recognition of the enormous potential of custody services in this region," says Mr Barker. "It was also part of the bank's overall aim to generate more fee-based business."

StanChart has been in the custody businass for many years but it is only recently that the bank has emerged as a leading force in the Asia markets.

The amount StanChart earns from its custodial services is not separated out in accounts. But its fast growing Asia operation is likely to be making considerable profits.

"Assets under management have grown by about 250 per cent in the last two years," says Mr Barker. "In value terms US funds would outweigh others but the Japanese are coming in in a big way. Intra Asia business is also growing rapidly, particularly with funds going into China."

StanCbart Equitor stresses that it is not a global custodian. Its services are focused oo an area it calls greater Asia, operating in 14 countries stretching from Pakistan and India in the west to Japan in the east.

"Wa act as a regional sub-custodian," says Mr Barker. "Our clients are the big global custodians and institutions in the US, Europe and Japan. We offer on the ground expertise and, perhaps most important, a comprehensive reporting service to clients in centres like Chicago and London on fast-growing markets Asian markets."

StanChart has been in Asia for more than 130 years. The region has a position of central importance in the bank's finances. Total assets of StanChart's Asia Pacific units stood at £14bn ($21bn) last year, about half the group's total assets.

The Asia Pacific has traditionally been regarded as the group's crown jewel, producing profits to offset losses elsewhere. But tbe Bombay stock exchange scandal last year and the resulting £272m bad debt provision the bank was forced to make showed tbe region could produce some nasty surprises.

A simultaneous, secondary listing of StanChart shares is now planned in Hong Kong and Singapore, probably taking place by tbe middle of next year.

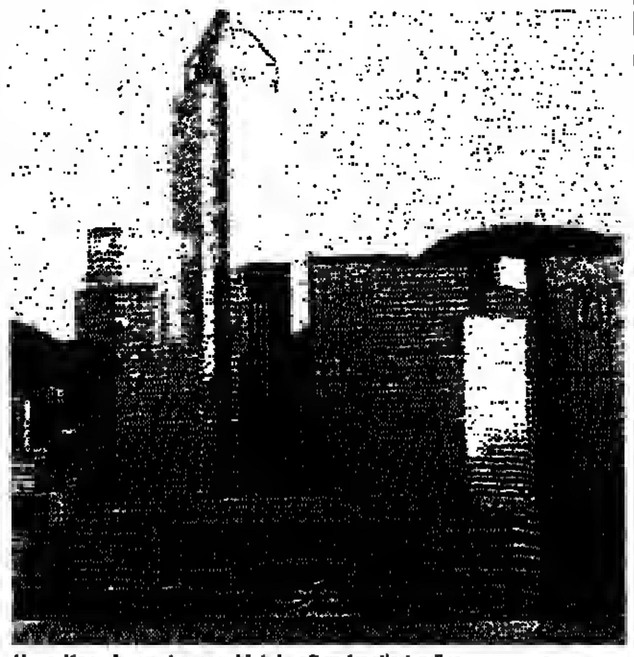
The Hongkoog and Shanghai Bank (HSBC), Citibank and StanChart are tbe leaders in custodial services in Asia. Many domestic banks are also fast developing custodial expertise.

While StanChart Equitor cannot match the market share of HSBC in many markets, it has quickly worked its way to the top in what is a very competitive business since reorganising operations two years ago.

"The bread and butter of our business is the safeguarding of share scrip, settiement and casb management," says Mr Barker. "But there are so many otber services tbat are now essential."

"A big part of the job is educating our clients in dealing witb tbese markets. For instance there is a big contrast between the older and newer markets.

"For example, in Malaysia there is a mix of physical and scripless trading but in Shangbai and Shenzhen it's all very sophisticated witb scripless



Hong Kong has set a new high in often frantic trading — Sarah Murray

trading and central depositories. It's very important that our clients keep updated on local developments. We continuously feed them information on the maze of settlement procedures and on new regulations."

Another important role of the custodian is liaising between market regulators and potential investors. A US pension fund might have particular requirements which have to be satisfied before investing in a market.

"We work behind the scenes to match the requirements of certain investors to the local market," says Mr Barker. "That means talking to regulators, helping to prepare the ground for investors and prevent any misunderstandings. If a market loses credibility with a US pension fund it can be disastrous."

The custody business in Asia is changing fast. More markets are moving towards completely scripless trading and central depositories. While this means that custody is becoming a less physical exercise – for one thing banks will no longer have to build enormous vaults to handle scrip – clients are now demanding many other services.

More markets will soon be offering securities lending opportunities. "This has already developed into a big business in Japan," says Mr Barker. "It's a form of hedging for the client that works best in markets where short selling is permitted. That is going to develop into a big part of our business."

The volatility of Asia's markets will ensure that operators of custodial services are kept busy. Custodians have to anticipate sudden swings in the market and be ready to handle volume surges.

Earlier this year trading volumes in Kuala Lumpur suddenly soared to levels exceeding New York and Tokyo. Custodians have to have teams of professionals ready to handle such situations. If they are caught flat-footed, then clients, the big global custodians in the US or Europe, will quickly look elsewhere for service.

"The recent flood of funds being moved into Asia by the big institutions has been good for us," says Mr Barker. "But it won't go on like this forever. While a lot of funds will stay in the area the business is bound to ebb and flow. We've got to be prepared for the quiet as well as the hectic times."

Kieran Cooke

PROFITABILITY

Balancing risk against reward

As banks search for stable forms of income which do not carry the risks of lending or securities trading, custody has started to become distinctly fashionable. Yet this popularity has intensified competition, and made participants examine more closely where the best long-term returns lie.

Two aspects of custody attract banks. The first is that it does not strain balance sheets. Custodians only need to hold small amounts of assets on their own balance sheets, so they require little capital. The second is that the returns are less volatile than securities trading activities.

Mr Robert Binney, business executive for global securities services at Chase Manhattan, says that the lack of volatility is a significant attraction for banks. "Custody has been a mainstay of our income during blacker days than we are facing right now," he says.

In addition, custody can boost other forms of business sucb as securities and derivatives trading. Banks which administer securities have a rich potential to sell customers related sarvices. As well as measuring portfolio returns, they can offer to raise returns through other activities.

This has led to stiffer competition. Ms Jean Pellegrini, JP Morgan's head of sales for securities and cash in Europe, says this is less because of new entrants than old ones doing more. "I cannot think of any banks starting from scratch, but people are getting more serious about it," she says.

Two aspects of custody attract banks. First, it does not strain balance sheets. Second, the returns are less volatile than securities trading activities

However, tha fact that there are few new entrants does not mean that competition is hindered. Most corporate banks offer custody services, says Mr Alistair Reid, Barclays' director of custody. He argues that some have become custodians virtually "by accident" because they offer related services.

Some custodians believe that competition will drive market players in two directions. They will compete by offering lower cost, standardised services; or higher cost and bigh value forms of custody. In different ways, both strategies could be

Robert Binney: lack of volatility is an attraction for banks

Jean Pellegrini: "I cannot think of any banks starting from scratch"

easier for larger, diversified banks.

Mr Reid says straightforward custody involving the holding of securities, and collection of dividends and bond interest payments in domestic markets, faces baing "commoditised". The banks which handle large volumes through low cost networks will be able to undercut smaller competitors.

This trend is being accentuated by the pressure to disclose the structure of commissions and fees which were previously not clear. Ms Pellegrini says that the "ratcheting down" of fees is also being stimulated by a rise in the number of consultants which analyse commission structures.

In this market, banks with large electronic networks may have an advantage in tbeir ability to link markets easily. Mr Binney says that Chase's Infoserve network gives the bank an edge because "all our centres have the same hardware and software. That is whare you can get some savings".

The other end of the market is for specialised services in addition to the core products. Mr Binney cites the examples of custodians deducting taxes from dividends at source on behalf of customers, and attending company meetings on their behalf to exercise proxy shareholder votes.

Ms Pellegrini argues that large banks bave an advantage in providing these services because they hava resources such as securities trading arms on which to call. "Helping customers handla a derivatives portfolio is natural for a trading house, but it may be more difficult for others," she says.

Custodians may perform several services involving short-term credit to clients. An example is guaranteeing to credit dividends to customers on the due date

However, although margins may be higher for such services, they can also carry risks that simpler services do not. This means that while the immediate returns are higher, the longer term profitability must be analysed. Banks can otherwise fall into the trap of over-estimating returns on capital.

One form of risk is credit. Custodians may perform a number of services involving short-term credit to clients. An example is guaranteeing to

credit dividends to customers on the due date, and accepting the risk that there will be a delay in the payment from companies in their portfolio.

A second risk is operational. The costs of services such as attending shareholder meetings is far higher than relying on simple automated activities. This means that custodians can either miscalculate inflexible costs, or be exposed to the risk of costs ontstripping revenues in quiet periods.

A further problem for custodians providing complex services involving different arms is being able to fix tbe true costs of services. They must have a transfer pricing formula which ensures that the profitability of custodianship is not over-estimated because tbe costs fall elsewhere.

This would be complex in itself, but Mr Reid of Barclays says tha challenge of transfer pricing can be exacerbated by the fact that the bank allows customers to waive custodian fees if they wish to pay for services through other methods such as "soft" commissions on brokerage services.

Such complications are only likely to grow. Mr Ian Cormack, managing director of Citibank's financial institutions and transaction services group in Europe, says that custodians will respond to increasing demand for services linked to asset management by tailoring new services for customers.

"The people who will get into trouble are those that can only do one thing," he says. Yet these services will in turn make it more vital for custodians to devise better methods of measuring profitability. As competition erodes margins, the balancing of risk and reward will become trickier.

John Gapper